



OCTOBER 2018

A PUBLICATION OF THE IIA

10 Tips for Career Management

Applying COSO's ERM Principles

Audit's Role in Business Process Improvements

Advocating for the Profession

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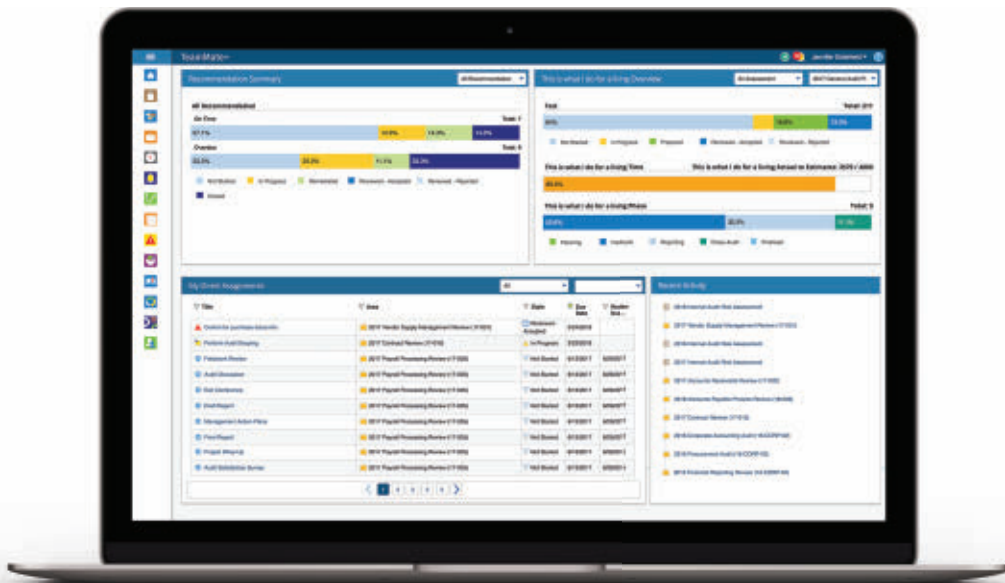
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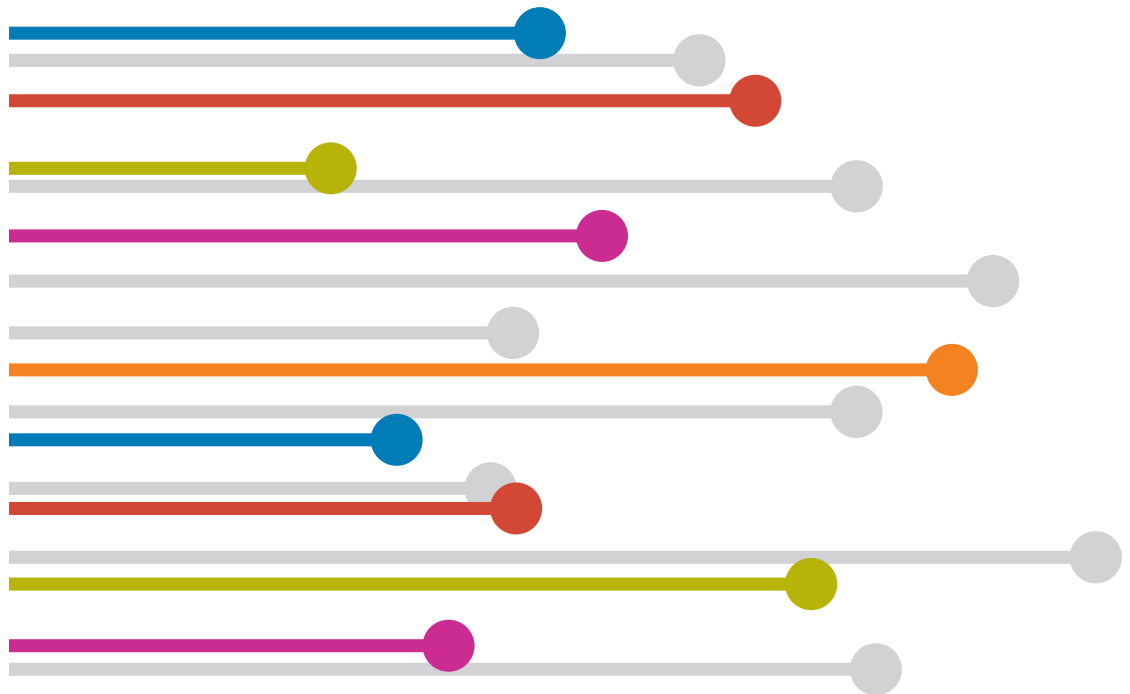
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Powering Productivity

Internal Auditor's Emerging Leaders are embracing apps that enhance their work and personal lives in the digital age.

Skills for New Practitioners

The demands on those new to the profession continue to evolve and change. An IIA professional development expert reviews top requirements for incoming auditors.

Attacks Test Cyber Resilience

Two studies highlight cyber threats to key systems and the need to assess the organization's defenses.

AML Negligence Proves Costly

Bank account holders can exploit poor anti-money laundering practices. Financial firms and other businesses need processes and technology to protect themselves.



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KEYS TO SUCCEED

The October issue of *Internal Auditor* is always my favorite issue of the year. In it, we recognize the up-and-coming internal audit professionals who are shaping the profession. These bright, young auditors are passionate about practicing, and advancing, internal auditing. They are innovative, and their positivity and enthusiasm are contagious.

As this year's Emerging Leaders acknowledge, internal auditors face more challenges, and opportunities, than ever. So, what do they say are the keys to success in this evolving profession? The leaders, perhaps unsurprisingly, identify technology as one key, saying they expect to rely more on technology as their careers progress. In fact, technology skills are already an expectation of auditors. As Ernest Anunciacion of Workiva notes in this month's "Eye on Business" (page 68), "since technology plays an increasingly large, fundamental role for companies, auditors must fully grasp what's involved and associated with it."

Certification is another important way in which this year's Emerging Leaders differentiate themselves. In "Certification: Where to Begin?" (page 15), Dana Lawrence, a risk consultant with Simple Finance, advises readers to consider which certifications to pursue based on what makes sense for one's career and for one's life.

Richard Anderson adds to the conversation in "10 Tips to Manage Your Career" on page 41. Anderson, clinical professor of risk management at DePaul University and a retired partner of PwC, has served as a mentor to many internal auditors throughout his career. In his article, he offers 10 skills that can help internal auditors prosper in today's work environment—skills such as differentiating oneself from one's peers and creating one's own opportunities.

Internal Auditor's Emerging Leaders, past and present, are a good barometer of what it takes to be successful in internal auditing. Take, for example, the apps they use. Just for fun, Senior Editor Shannon Steffee asked Emerging Leaders from all the way back to 2013 what apps they use to enhance their work and personal lives. In the InternalAuditor.org online exclusive, "Powering Productivity," the leaders share the apps they use for travel and expenses, productivity and organization, bridging language barriers, networking, and personal enjoyment.

Readers can learn more about the 2018 Emerging Leaders beginning on page 26. Thank you to this year's distinguished judging panel (page 36), who rated our candidates in the areas of certification, business acumen, leadership, advocacy, community service, and innovative thinking.

Congratulations to the 2018 Emerging Leaders!

A handwritten signature in black ink that reads "Anne". The signature is fluid and cursive.

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WE WANT TO HEAR FROM YOU! Let us know what you think of this issue. Reach us via email at editor@theiia.org. Letters may be edited for clarity and length.



Age-old Stereotype

As a young woman starting out in the audit profession, I found the tone of “Women at the Top” slightly offensive and very presumptuous. When I saw that there was an article dedicated to successful women, I was excited to read how they “climbed the professional ladder” as advertised. But when I began reading the article, the focus on work-life balance seemed overwhelming. Although I understand this is an issue that many women, and men, will encounter at some point during their professional life, it seemed dated to

reiterate the age-old stereotype that a woman’s purpose in life is to have children and that only those truly dedicated to defeating that stereotype will succeed.

Several statements seem to presume that all women want/will have children. Additionally, the desire to balance a family and work is not exclusive to women. The focus of balancing work and family is important but the idea that it is only discussed in an article focused on successful women plays into stereotypes. Rarely, if ever, are the accomplishments of men talked about in conjunction with their ability to have a family. Naohiro Mouri’s bio on the page preceding the article lists his successes in the workplace without mentioning his ability to balance home and work. I think an article on achieving work-life balance that included both men and women would have been better received.

KELSEY KULBETH comments on *Janet Seago’s “Women at the Top” (August 2018)*.

AUTHOR’S RESPONSE: *Thank you for raising many interesting points.*

The women interviewed for this piece found it important to point out that they had overcome specific challenges in achieving their success, including raising children, finding a balance between work and personal life, and overturning preconceived notions attached to women in the workplace. The material quoted was provided by the interviewees, so it reflects their real experience as they worked their way up the ladder. Their examples have undoubtedly helped alter these perspectives, providing today’s young women the sort of workplace in which such stereotypes seem almost unthinkable. However, there may be more work to do in this area, so we look forward to the continued progress you and your colleagues will make in leveling the playing field.

Audit’s Role in GDPR

Jan Hertzberg’s article provided some helpful pointers for internal auditors on the General Data Protection Regulation (GDPR) and its impact on the global stage. Internal auditors outside of the European Union (EU)

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could use this information to help their organizations meet and exceed GDPR. I think many organizations and individuals, especially here in the U.S., still think GDPR does not apply to them. Today's world blurs business borders and collecting information about just one customer in the EU could make or break an organization complying with GDPR. As internal auditors, this is a great opportunity for us to provide needed, value-added services to organizations to ensure GDPR compliance.

FREDRICK W. LEE comments on Jan Hertzberg's "GDPR and Internal Audit" ("Risk Watch," August 2018).

Digital Unpersoning

The statements about the law, itself, when it comes to firing employees for social media posts are accurate. What is lost between the answer and the question is that Rosanne Barr actually had a line in her contract limiting the company's ability to summarily terminate her employment. It stated that she must be given time to answer any criticism of any objectionable social media post. ABC did not honor that portion of her contract when they terminated her. She decided on her own not to take them to court over the breach of contract.

While it's admirable that *Internal Auditor* is providing legal context around the corporate shunning of individuals due to social media posts, the situation is far more complicated than the small inset can possibly provide context around. Digital unpersoning may, at present, be legal and not a First Amendment issue in light of recent events, but the landscape is changing rapidly. There is talk of a digital bill of rights, regulation of social media companies, new federal commissions to monitor them, or outright declaration of these companies as public utilities with all the constraints

attached. This topic deserves a much more nuanced examination, one I hope *Internal Auditor* will provide in future issues.

JOSHUA M. SMITH comments on "Not Without Consequences" ("Update," August 2018).

Ignoring Red Flags

I observed a number of these red flags on display and nipped them in the bud. It happens so often that many times auditors ignore the red flags.

HERBERT OBONYO comments on Richard Chambers and Deanna Sullivan's "The Ones You Least Suspect" (August 2018).

Overbilling in Health Care

The Office of the Inspector General employs big data analysis for Medicare. Given limited audit resources and the complexity and volume of health-care payments, it rightly focuses on the biggest targets. Based on my experience auditing physicians in Canada, overbilling practices are common and I would estimate would fall into the 5 percent to 10 percent range. We determined it was a small percentage of physicians who were consistently up-billing for visits/procedures or "stacking" several procedural codes for one visit. Some audits indicated a number of physicians billed more than twice what they should have. Enforcement is ineffective, in my opinion, as you are dealing with wealthy individuals or corporations who feel entitled to the extra income and use their lawyers as a shield. This makes enforcement more time consuming and expensive. More regulations might help, but regulation is a balancing act to penalize the abusers while ensuring you aren't penalizing or overburdening the providers who are billing correctly.

PHIL CASKANETTE comments on Art Stewart's "Trouble in the Emergency Room" (*InternalAuditor.org*, August 2018).

No Surprises

An internal audit may encompass several topics or areas (modules). Do you circulate conclusions as soon as you complete each module or do you wait to start writing and commenting after the testing of all modules is complete? Too often, the audit leader believes he or she is the only one who can communicate and write the audit report. If something of significance—something management needs to know—is concluded, does the audit team immediately issue a management letter before all testing is completed? The management letter would require comments from the audit client before circulating. Note that none of these solutions would stop your ace report writer from writing the report that most likely no one will read. What these solutions do accomplish is discussion immediately after testing so the board doesn't hear it through the grapevine and ask the CAE, "When were you going to tell us?"

DON SPARKS comments on the "Mind of Jacka" blog post, "Why Your Audit Projects Are Late" (*InternalAuditor.org*, July 2018).

Take Time to Explore

In 1998, I started traveling heavily for my job, sometimes up to 90 percent of the time. One of my regrets is that at the beginning, I didn't take enough time to explore the areas I traveled to. This included my one and only trip to Budapest, a nearly two-week trip to Russia, and a shorter trip to Costa Rica. After a few years, I learned there was great value in arriving a day early or staying an extra day at the end of the trip (out of my own pocket) to explore places I may never return to.

BOB R. comments on the "Solutions by Soileau" blog post, "Making the Most Out of Travel" (*InternalAuditor.org*, August 2018).



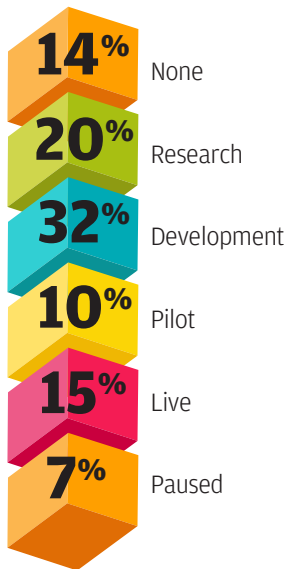
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Leaders' big egos bring big risks... Compliance tech use still lagging...
When CEOs damage reputation... Favoritism blocks women's path to the top.

Update

THE STATE OF BLOCKCHAIN

Organizations worldwide have varying degrees of involvement with blockchain technology.



Source: PwC, Global Blockchain Survey, 2018



TAKE STOCK OF REPUTATION

In the wake of a crisis, social media is magnifying reputation damage.

The impact of reputation events on stock prices has doubled since the introduction of social media, according to a new report from Pentland Analytics and professional services firm Aon plc. Moreover, social media's widespread use significantly elevates a company's reputation risk.

"Although risk management awareness and tools have evolved, reputation risk continues to weigh on corporate executives as one of their leading concerns," Randy Nornes, enterprise client leader at Aon, says. "Savvy companies that develop and use a robust risk management framework

can not only better navigate reputation events but can often see a net gain in value post-event."

Reputation Risk in the Cyber Age examined 125 reputation events that occurred in the last 10 years and measured their impact on shareholder value during the following year. These events include mass fatality events, poor governance and business practices, cyberattacks, product and service failures, accounting irregularities, and marketing and communication mistakes.

Depending on their reputation risk preparedness and response by management immediately following a crisis, companies

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could add 20 percent of value or lose up to 30 percent of value. The report says successful recovery from a reputation event depends on the ability to produce instant and global crisis communications, perceptions of honesty and transparency, and a program of active social responsibility.

The report pays special attention to the growth of social media and the impact of cyberattacks and analyzes four high-profile reputation events—the Samsung Galaxy Note 7 recall, Volkswagen’s emission software devices, and the cyberattacks at Home Depot and TalkTalk. —**S. STEFFEE**

THE RISKS OF A NARCISSISTIC CEO

Big egos can lead business leaders into bigger legal trouble.

CEOs with big egos may grab the headlines for leading their organizations to great success, but they can expose those organizations to big legal risks, according to recent research. Stanford University management professor Charles O’Reilly III notes that narcissistic CEOs are more likely to manipulate accounting data, engage in tax-avoidance schemes, and overpay for corporate acquisitions.

“Narcissists are less sensitive to avoidance of punishment and more sensitive to the possibility that they’ll win big,” O’Reilly says in a Stanford Graduate School of Business article.

In one study, O’Reilly and colleagues at the University of California surveyed technology company employees about their CEOs’ personalities, and found a strong

correlation between CEO narcissism and the duration of lawsuits. A follow-up experiment found that narcissists would launch a new product even if there was an 80 percent chance it would trigger a lawsuit.

O’Reilly says narcissists often win people over because they are good at “spinning falsehoods.” Moreover, because they are seen as rule-breakers, they set that example for integrity throughout the organization. —**T. MCCOLLUM**



53%
OF ASIA-PACIFIC'S CONSUMERS
prioritize mobile app security over functionality and convenience.

60%
STOP USING AN APP ENTIRELY IF DATA SECURITY IS COMPROMISED.

“It is critical that businesses understand where their customers stand on the curve of convenience to deliver the right user experiences, or risk losing them,” says Adam Judd, senior vice president, Asia-Pacific, China, and Japan, F5 Networks.

Source: F5 Networks, The Curve of Convenience: The Trade-off Between Security and Convenience

TECH ADOPTION FALLS SHORT

Organizations are not leveraging automation for compliance work.

Most companies are not using technology to increase compliance efficiency, a Protiviti survey notes. Benchmarking SOX Costs, Hours, and Controls

identifies lack of investment in this area despite rising costs for compliance with the U.S. Sarbanes-Oxley Act of 2002.

The survey of more than 1,000 U.S. internal

audit and finance leaders found that fewer than one-third of organizations are using continuous controls monitoring, data analytics, process mining, and other technologies for Sarbanes-Oxley compliance processes. Nearly two-thirds are not using any technology tools

to facilitate compliance with the act's Section 404 requirements. And just over 10 percent are leveraging robotic process automation, despite its ability to automate manual, repetitive tasks.

At the same time, compliance technology adoption is either on the horizon or underway selectively at many firms. Nearly half of respondents, for example, say they are planning to incorporate technology in their Sarbanes-Oxley activities by 2019. And among those facing their first year of Sarbanes-Oxley compliance, more than 80 percent say they are using process mining and analytics.

Greater use of compliance technology may be taking off soon, a separate webcast poll conducted by Deloitte suggests. Just over 48 percent of the 420 responding U.S. risk and compliance professionals, internal auditors, executives, and board members say their organization plans to "modernize" its compliance function in the year ahead.

Deloitte describes modernization as a transformation that leverages advanced productivity tools such as cognitive compliance, automation, and robotics to help integrate risk management and compliance with business strategy. Many organizations are investing resources toward this effort. More than 25 percent say they expect to increase their financial and talent investment in the next 12 months. —**D. SALIERNO**

WHEN CEOS BECOME THE CRISIS

Companies can take steps to restore their reputation when a CEO's words bring negative publicity, says Christal Johnson, assistant professor of public relations at Syracuse University.



What can internal audit do to help minimize reputation damage from a CEO's behavior such as recent comments by Papa John's founder and Tesla's CEO?

As part of business continuity management, internal audit should work with public relations (PR) to audit the effectiveness of an organization's crisis communications plan. They should ensure that the organization is using media monitoring software or Google alerts to help minimize risks during a crisis. It allows a PR or crisis management team to stay abreast of their CEO's communication messages—as well as negative publicity—to arm them with real-time information if a CEO

"goes rogue." It also allows the organization to take control of the narrative, acknowledge the issue, and correct it before the media or the public create their own versions of the situation. PR should reach out to the greatest influencers in its media contact lists—traditional and online media—to frame the story and alleviate misinformation. PR also should immediately address the public, discuss the issue and steps to correct the problem, create dialogue with the groups affected by the CEO's actions to hear their concerns, and communicate what the organization will do moving forward to build a stronger and more responsible brand.

BARRIERS TO THE TOP

Favoritism impedes progress and performance of female CEOs.

Women aspiring to lead organizations must overcome favoritism and gender stereotypes, according to research published in the journal *Organizational Behavior and Human Decision Processes*. In 2017, only 5 percent of Fortune 500 CEOs were women.

Florida State University management professors Michael Holmes and Gang Wang analyzed nearly 160 studies on gender influence on CEOs' careers. They found female CEOs are paid less, have shorter tenures, and are more likely to lead distressed companies.

One factor is "in-group favoritism," which may lead male board members and executives to view men as more competent



than women. Moreover, the stock prices of companies with female CEOs performed worse than those with male CEOs—even when the companies were just as profitable. "It seems when investors take an overall look at firms, biases creep in," Holmes says.

Faced with such obstacles, many women leave the workforce before reaching higher levels, resulting in fewer female candidates for CEO jobs. —**T. MCCOLLUM**

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Back to Basics

BY DANA LAWRENCE EDITED BY JAMES ROTH + WADE CASSELS

CERTIFICATION: WHERE TO BEGIN?

Internal auditors should consider several factors when deciding which certification is right for them.

Earning a certification can enhance an internal auditor's career by demonstrating his or her subject-matter expertise and commitment to the profession. In the process of studying for a certification, an auditor can develop and practice time management skills similar to those used on an audit, which provides a solid foundation that can increase workplace performance and efficiency. Additionally, immersing oneself in a certification study program will improve an auditor's ability to learn and fosters curiosity.

While the benefits are clearly demonstrated, it can be overwhelming choosing which certification to pursue. Auditors should ask themselves several questions when making this important career investment.

What Should I Pursue?

The IIA offers certifications, designations, and qualifications that can provide value

along different points of an internal auditor's career path. The certifications and designations that demonstrate core competency include the Certified Internal Auditor (CIA), Internal Audit Practitioner (IAP)—which can be applied for after passing part one of the CIA exam—and the Qualification in Internal Audit Leadership (QIAL). The CIA is the only globally accepted certification for internal auditors and is the standard by which individuals demonstrate their professionalism. The QIAL is for aspiring leaders and current audit executives looking to further establish credibility and successfully lead an audit team.

The certifications that demonstrate subject-matter expertise include the Certification in Risk Management Assurance (CRMA) and the Certification in Control Self-Assessment (CCSA). The CRMA establishes credibility as an advisor on risk and the CCSA positions

auditors to drive organizational change.

Industry-specific certifications include the Certified Government Auditing Professional (CGAP), Certified Financial Services Auditor (CFSA), Certified Process Safety Auditor (CPSA), and Certified Professional Environmental Auditor (CPEA). Each of these demonstrates subject-matter expertise on industry-specific risks. Changes to the CCSA, CFSA, and CGAP certifications are coming in 2019 (see "Changes to IIA Certifications" on page 17).

There also are certifications offered by other associations that would benefit auditors who assess an organization's IT and business systems (ISACA's Certified Information Systems Auditor) or who want to become experts in fraud detection, prevention, and deterrence (Association of Certified Fraud Examiners' Certified Fraud Examiner). Auditors should research

SEND BACK TO BASICS ARTICLE IDEAS to James Roth at jamesroth@audittrends.com

Navigating the Complexities of Corporate Culture

Internal Auditing Around the World, *Volume XIII*

Culture audits are an opportunity for auditors to talk to employees, managers, customers and vendors, and report on whether the company is living its values, or whether they are hollow. Read more from 15 audit leaders featured in this publication.



Download a copy at protiviti.com/iaworld.



TO COMMENT on this article,
EMAIL the author at dana.lawrence@theiia.org

should research any certification requirements with the organizations that own them.

What Makes Sense for My Career?

Auditors should consider where they are professionally and what skills they need to grow. Professional growth can mean moving into management positions or increased contributions as an individual.

For example, an experienced auditor can demonstrate his or her breadth of knowledge and subject-matter expertise by obtaining an industry specialty certification such as the CFSA or CPSA. An audit manager who is a CIA with career aspirations of audit director or chief audit executive (CAE) could demonstrate commitment to the profession and leadership abilities by earning the QIAL, which has experience and education requirements. The IAP is a great starting point to demonstrate a commitment to the profession while working toward a longer term goal of the CIA.

It is important to know that some certifications have eligibility requirements, such as education, work experience, formal training, and character references. For example, CIA candidates with a four-year degree must obtain a minimum of 24 months of internal audit experience or its equivalent. A master's degree can substitute for 12 of the required 24 months. Candidates without a four-year degree can substitute work experience according to the eligibility guidelines. Familiarity with the requirements can help guide professional development efforts through one's audit career.

Auditors can start their work toward a certification before they meet all the entry requirements. In some instances, professionals can sit for the exam without having met the work experience requirement and earn the certification once they have accumulated the years needed. The entry requirements—and exit requirements for some certifications—ensure the consistency and integrity of IIA certified professionals.

What Makes Sense for My Team?

Another factor to consider is the skill of the audit team, overall. If there is a solid concentration of experience, it makes sense to add breadth with a new skill. Does the team have a subject-matter expert on risk management? If not, it might make sense to pursue the CRMA to demonstrate expertise on risk assurance and governance processes.

Auditors should talk to their CAE about their professional development plan to ensure that the department and personal training goals are in alignment.

What Makes Sense for My Life?

Studying for any certification is a time commitment, which can vary depending on the certification. After reviewing the

CHANGES TO IIA CERTIFICATIONS

The IIA is repositioning its Certification in Control Self-Assessment (CCSA), Certified Financial Services Auditor (CFSA), and Certified Government Audit Professional (CGAP) programs.


- » The CCSA program will be integrated with the Certification in Risk Management Assurance (CRMA) through the next CRMA exam update.
- » The CFSA and CGAP exam will transition to an assessment-based certificate program.

The last day The IIA will accept new CCSA, CGAP, and CFSA certification applications is Dec. 31, 2018. These certifications will continue to remain valid, supported by IIA training, and require annual continuing professional education credit reporting. Those who currently hold CGAP, CFSA, and CCSA certifications and want to obtain the Certified Internal Auditor credential may register to take the challenge exam from April 1, 2019, through Dec. 15, 2020. For more information, visit www.theiia.org.

certification requirements to determine the number of exams per certification, testing center locations, exam syllabus, and overall time investment, an auditor can make a better informed decision regarding what commitment is appropriate.

Auditors also should consider how to study. Does this certification have an online training module, study book, or in-person course? How will training fit into the auditor's life? Reaching out to one's professional network is also recommended. Colleagues at work or in a local IIA chapter may have valuable insight on time management, study requirements, and other considerations an individual may not think about. In addition, auditors should consider joining an exam-related social media group to connect with others preparing to sit for the test. There are LinkedIn groups and Facebook pages dedicated to preparing for the CIA exam.

Elevating the Profession

A professional certification can be a worthwhile investment in an internal auditor's future. To realize the value, professionals should carefully assess what makes sense for their career, team, organization, and overall life situation. Ultimately, a decision to pursue certification elevates not only the status of the internal auditor and adds value to the organization, but advances the profession, as well. 

DANA LAWRENCE, CIA, CRMA, CFSA, CRVPM, is an operational risk consultant with Simple Finance in Portland, Ore.

Ideagen appoints Stephanie Jones to head up the Pentana Audit product strategy

Stephanie – recently named one of nine District Advisors for the IIA in North America – said:

“

I am both delighted and excited to be given the opportunity to help Ideagen maintain its position as a leading provider of audit management software.

*One of my key objectives is to help organizations establish a continuous risk-based audit execution process and improve their **internal audit maturity**.*

”



Stephanie Jones
Pentana Audit Project Manager

Pentana® Audit

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FIVE TRENDS SHAPING DIGITAL TRANSFORMATION

By understanding new developments, internal audit can help shape the organization's approach to the digital economy.

Digital transformation is driving change along two fronts. Organizations are using intelligent systems to solve business problems and reduce costs, yet operational complexity is increasing. Moreover, that complexity is a design problem of those systems—organizations need to focus on how people use technology.

In the face of these two factors, internal audit can help their organization retool internal controls and streamline business processes to focus on strategic risks wrought by digital transformation. Many audit leaders are preparing for transformation with strategic hires in data management and analytics to leverage talent across an expanding portfolio of risk. Meanwhile, new regulatory technology tools enable internal audit to set up analytics programs quickly. As internal audit's role continues to grow, these audit tools will need to evolve to keep pace.

Five technology trends are set to disrupt how internal audit confronts its risk mandates in an age of transformation: audit analytics, robotics, next-generation cloud computing, cybersecurity, and performance optimization. Internal audit will need to leverage these trends to provide leadership and assurance in the emerging digital economy.

Audit Analytics

Proving insights from data is internal audit's new value proposition. Auditors are leveraging analytic platforms to provide insights into control performance trends in near-real time. Trends emerging in audit automation include analysis and replacement of rules-based engines with intelligent systems, audit process automation, continuous monitoring, and a focus on deep-data analytics and visualization for better decision-making.

Ideally, analytic platforms reduce the frequency

of false positives in data for a more nuanced look at risks than is possible with point-in-time sampling. Analytics engines work well for routine data sets that are well-defined—such as system user-access controls, accounting functions, and process controls—but more advanced systems are needed for complex risks.

Robotics

Robotics is another way of describing machine learning and artificial intelligence. These smart systems are either completely autonomous or user-directed with inputs from specific data sets to facilitate machines learning routine tasks. This technology already is used in many industries to achieve business efficiencies and provide expert guidance from zettabytes of data.

The obvious advantage of using these tools is they can run behind the scenes to alert auditors to changes in the control environment. The

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EMAIL the author at james.bone@theiaa.org

opportunities to automate and refine internal controls may be endless, with advances in robotics and machine learning making organizations more responsive to change. A July 16 *Forbes* article notes, “Auditors can use cognitive technology to redesign their work so they can conduct analyses of structured and unstructured data in ways not possible just a few years ago.”

Cloud Computing

Although many businesses are reluctant to move data to third-party providers, cloud computing is accelerating. IT research firm IDC projects global public cloud spending will continue at a 19 percent compound annual growth rate through 2020.

Organizations facing competing mandates, such as data security and cost reductions, have leveraged a suite of cloud services to support these demands. Cloud computing will require internal audit to develop a portfolio of internal controls and distributed controls that function along parallel lines, as well as define a distributed control environment. Distributed controls are virtual in nature and designed specifically for third-party vendors such as cloud and ecommerce providers.

Internal auditors must prepare for a future where data is decentralized among service providers on platforms independent of internal controls within the organization. This paradigm creates a new risk exposure called “robust yet fragile.” Outsourcing increases scale, making organizations more robust for growth yet more fragile to single points of failure. Reliance on a distributed network of third-party providers creates fragility from each relationship. Contractual and service-level agreements are insufficient backstops. Understanding these new points of fragility will require new assurance models.

Information Security

Managing risks in a distributed data environment becomes even more complex for asymmetric risks such as information security. Cybersecurity is no longer a compliance exercise to ensure that policies and procedures are followed. Internal auditors must become conversant in the greatest vulnerability in cyber risk—the human element.

Vulnerabilities in complex systems exceed simple solutions, and technology alone is not enough. People trust technology, but cybercriminals can easily exploit that trust. As the digital economy expands into trillions of connected networks and devices, internal audit must assess cyberattack vulnerabilities created by unauthorized cloud services and even employee accounts with third-party providers.

Internal auditors must anticipate how digital profiles created in cyberspace result in new vulnerabilities within the organization. This requires a boundaryless security program that educates employees about how their behavior on the internet leads to vulnerabilities inside the organization. For example,

dormant personal internet account credentials can be used to socially engineer access to sensitive enterprise systems. Security programs that reward good behavior and reduce complexity serve as better incentives than blanket punitive responses.

The human-machine interaction is not a new risk. Researchers have identified this interaction as the main cause of the cyber paradox in which cyber risks continue to rise faster than investments in cybersecurity. The human-machine interaction risk is a design problem that ignores human behavior. Basic cybersecurity training has raised awareness but isn't a solution. The problem requires a broader awareness of digital habits that inadvertently lead to unexpected internal vulnerabilities. Internal audit must take a broader view of the control environment that extends to behavioral factors.

Performance Optimization

Performance optimization is a process that considers user behavior, technology interface, and situational awareness. Situational awareness is the product of sense-making, comprehension, and response. Examples of performance optimization include contract automation, audit analytics, risk assessments, financial reporting, and chatbots.

To optimize performance, organizations should:

- Clearly define the best achievable outcomes.
- Measure progress in incremental steps.
- Use controlled experiments to reduce risk.
- Anticipate and learn from failure.

Internal audit should partner with business owners to establish use-cases for performance optimization that increases efficiency and productivity, reduces risk and uncertainty, and addresses complexity.

A Path Toward Audit Leadership

The era of digital transformation is an exciting time for internal audit to build on the three lines of defense to become a more proactive leader by advising on strategic business performance. Although some internal audit functions have already adopted some of these approaches, it is not too late to catch up and surpass early adopters. Audit analytics is an obvious place to start for some organizations, while organizations that are further along may be adopting more advanced technologies.

The digital economy presents new opportunities for internal audit to create new assurance models. Audit priorities that align with organizational objectives and reduce risk are a powerful combination. Lastly, automation is a powerful tool, but auditors should never underestimate its impact on the people who have to use it. [la](#)

JAMES BONE, PHD, is lecturer in discipline at Columbia University and president of Global Compliance Associates in Lincoln, R.I.

Risk Watch

BY MANOJ SATNALIWALA EDITED BY CHARLIE WRIGHT

DON'T OVERLOOK PHYSICAL ACCESS

Internal auditors need to evaluate how facilities are protected as part of the organization's overall security efforts.

In the digital age, security risks have become a rising concern for boards, management, and chief audit executives. They have responded to technology advances and growing cyber threats by focusing on controlling access to data, networks, and systems—known as logical security. That focus on logical security often comes at the expense of attention to physical security around buildings, facilities, equipment, and other areas.

Physical and logical access are closely intertwined and combine to provide a higher level of security throughout the organization. Both types of access control are key to risk mitigation efforts to protect systems and data. Moreover, physical access can have a great impact on the effectiveness of logical access controls. Internal auditors need to focus on the basics and include physical access in their audit plans to ensure

that the organization is protected adequately.

What's at Risk?

Physical security is one of the most critical components of the overall security landscape. Weak physical security controls expose organizations to greater risk of failure of other controls. Recent incidents have shown that even with the strongest controls around logical security and intrusion detection, organizations continue to be exposed to the risk of unauthorized access in the absence of strong physical access controls.

Physical security risks are unique to each organization and depend on the size, geographical spread, and type of assets that need to be protected. Internal auditors often consider enterprise systems and data to be the primary assets that are vulnerable to physical security risks. That list must be expanded to include property, office

buildings, warehouses, utility rooms, machinery, equipment, and vehicles as well as employees, contractors, and visitors.

The broader risks resulting from the lack of effective physical access controls include inappropriate and unauthorized access to information, theft, vandalism, inappropriate actions from rogue employees or angry customers, accidents, and terrorism. While important for every organization, the consequences when physical security controls are compromised may be greater for data centers, defense-related organizations, educational institutions, hotels, hospitals, and retail businesses.

The Audit Plan

Including physical security audits in the annual audit plan can help ensure the organization is taking a more structured approach to mitigating security risks. Auditors also should provide

SEND RISK WATCH ARTICLE IDEAS to Charlie Wright at charliewright.audit@gmail.com



TO COMMENT on this article,
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assurance that management has performed a physical security threat assessment. Physical security audits should cover several areas.

Governance and Oversight Auditors should start by evaluating policies and procedures, oversight, risk assessments, training, and other processes that are in place to facilitate strong physical controls. Effective governance typically indicates a solid foundation for oversight and controls.

Ownership and accountability of physical access can sometimes be murky. Roles and responsibilities of security personnel, property management, data management, and IT overlap and are interrelated. Generally, the IT team supports and helps manage identity and access management programs, but a different business unit may be responsible for physical access. The effectiveness of physical access controls depends on the collaboration among all the affected groups.

Physical Access Control Layers The first step in protecting against physical access threats is developing the ability to keep unauthorized individuals off the organization's property. In assessing physical access controls, internal auditors should test the effectiveness of perimeter barriers such as fences, walls, or gates; protective lighting; alarm systems; communications systems; vehicle identification and control systems; and guard systems. As auditors move beyond perimeter considerations to review specific buildings, they should test other key controls such as

Within each building, internal auditors should inspect elevator and stairwell access, as well as evaluate whether individual and conference room doors have appropriate locking mechanisms. Rooms that contain valuable or sensitive information and other assets should be adequately protected to prevent access by unauthorized personnel.

Internal auditors should evaluate these multiple layers of controls carefully to ensure they are strong enough from both preventive and detective aspects. All these systems should be integrated with each other. For example, many organizations use a human resources database called Active Directory to validate an employee's access credentials in real time.

Monitoring Internal auditors should assess whether the organization has effective monitoring controls in place to review the logs created from various monitoring systems. This information can ensure that the organization investigates and remedies all relevant incidents timely. In case of a breach, facilities, IT, information security, human resources, and legal teams must collaborate as a formal committee to discuss the incidents, analyze the root cause from investigations, and take remedial action. Internal auditors can review minutes from these committee meetings to evaluate their content and the effectiveness of their remedies.

Internal Audit's Next Steps

Going forward, internal audit should integrate physical security into the department's risk assessment process to ensure it gets adequate overall coverage in the annual audit plan. It is important for auditors to evaluate whether the current plan integrates physical security audit steps into relevant audit programs.

As they develop the audit plan and perform the risk assessment, auditors should schedule meetings with

facility and security personnel to learn about past incidents and get a sense of risk exposures in this area. From there, they should meet with the relevant stakeholders to discuss the current logical controls and determine how much logical and other controls depend on physical controls. By following these steps and recommending effective physical security controls, internal auditors also can help strengthen the organization's overall security profile. [la](#)

Internal audit should integrate physical security into the department's risk assessment process.

security alarm systems, cameras, motion detectors, turnstiles, door locks, and badging systems.

Despite the most sophisticated personnel identification and control processes, piggybacking is still a huge concern. Piggybacking refers to when an unauthorized person follows behind another person who is authorized to gain entry into a restricted area or past a checkpoint. Internal auditors must ensure that the organization is taking enough measures to restrict access by unauthorized individuals until their identity is confirmed by on-site security personnel. Auditors can review training and communication about piggybacking and even observe this process during busy entry times.

MANOJ SATNALIWALA, CIA, CISA, CPA, CA, is chief audit executive and senior vice president, Internal Audit, at Caliber Home Loans in Coppell, Texas.

Fraud Findings

BY EMILY E. KIDD EDITED BY BRYANT RICHARDS

THE CREATIVE CARD FRAUD

Two employees collaborate to use university purchasing cards to steal almost \$300,000.

The finance department at a Midwest university issued 28 purchasing cards (P-cards) to the university's IT department so it could more easily purchase electronics and technology items and deliver them to the departments IT supported. P-card use at the university was decentralized, and all supporting purchase documents were maintained in each department. Every month, the university required the cardholder to provide supporting invoices and receipts for purchases, as well as the P-card statement, to his or her direct supervisor for review and approval before submitting.

Within IT, Lisa Moore recently was promoted from supply technician to operations support manager. Soon after her promotion, Michael Graham was hired as a supply technician within the department, reporting directly to Moore. The two

were friends before they became co-workers in the same office.

Campus internal audit conducted regular reviews of departmental P-card transactions, which looked for risk factors such as high-dollar and high-volume purchases. In one such audit, the auditor in charge, Heath Crocker, noted that departmental cards' activity as stated in the monthly bill did not match the supporting receipts in several instances. When Crocker questioned the IT department about the discrepancy, it insisted that the information on the bill was not accurate. Crocker then queried the university's P-card coordinator, who confirmed that the information on the monthly bill is sometimes not accurate. The auditor accepted this explanation and did not take additional action — nor was this information provided to the auditor's supervisor. As a result, internal audit

missed the opportunity to uncover a fraud that lasted 15 months and cost the university \$292,371.

Six months after the audit, an employee noticed a transaction on his P-card that he did not make and notified his manager of the discrepancy. Management conducted an internal review, and the university hired an accounting firm to review the P-card program and evaluate the internal control environment. Information about the theft was then handed over to the State Attorney General's Office for further investigation and action.

The investigation found that Moore and Graham were colluding to manipulate the system. They created fictitious purchase requests for merchandise in the office's electronic purchasing tracking system. The items were generally office consumables that would not be tracked by the department's inventory control system.

SEND FRAUD FINDINGS ARTICLE IDEAS to Bryant Richards at bryant_richards@yahoo.com



TO COMMENT on this article,
EMAIL the author at emily.kidd@theiaa.org

LESSONS LEARNED

- » Internal audit risks losing credibility when fraud activities go unnoticed. As a result, management will look to cosourced and outsourced relationships to ensure it has the resources necessary to protect the organization from fraud.
- » Simply accepting that the monthly P-card statements may contain merchant errors on an ongoing basis led to a lack of detailed review and a breakdown of the approval process. Control improvements could have minimized or prevented the fraud.
- » Functional oversight can identify suspicious activities. Without additional reviews from individuals not directly connected to employees, red flags may not be identified and the fraud may be allowed to continue in plain sight. In this case, the director's "review" was not an effective internal control in detecting discrepancies.
- » Standardized budget analyses of purchases coded to categories of consumable inventories can identify increases in purchases that do not have an apparent business need. This type of review was not conducted in this case.
- » The use of electronic software and appropriate system access set-up could have ensured effective segregation of duties—in this case, for the initiation, approval, and reconciliation of purchases.

Moore and Graham created false documents, including receipts and invoices for monthly P-card statement approval. They manipulated the receipts to retain the vendor's main information while adjusting the merchandise itemizations. In addition, they created false receiving documents and logged into the software to update the false purchases as received in the tracking system.

Actual items purchased consisted of electronic/IT merchandise sourced from various vendors. Moore and Graham collected the items and resold them online. The falsified receipts sometimes listed items that were no longer available from the vendor listed on the P-card statement.


The employees concealed their fraud for months by circumventing controls.

Moore's P-card statements were reviewed by a director who provided oversight for several university departments. The director, Emily Darrough, noticed that the merchant information on the monthly P-card statements often did not reconcile with the receipts provided for support. However, Darrough was under the impression that the statements' vendor information was often inaccurate and did not further question those discrepancies. Because Moore reviewed and approved Graham's P-card statements, they went unquestioned.

By circumventing multiple internal controls, the employees were able to conceal the fraud for many months. Because the university had single transaction limits and

monthly purchasing limits on P-cards in place, the fraudsters had to get creative. Once the monthly purchase amount on Moore and Graham's cards had been reached, Moore used her influence to coerce her subordinates into giving her their P-cards to make additional, supposedly legitimate, purchases for the university. Moore also had access to the P-card numbers issued to all employees within the department. She and Graham used these numbers, without the physical P-card, to make additional purchases in their scam.

A combination of the decentralized nature of the business culture and the manual nature of the purchase review process led to the standard practice of reviewing the monthly card statements and supporting receipts/invoices just once, with document retention left to the cardholder. This placed responsibility on the single supervisory review of the card's monthly statements. In addition, random undisclosed reviews by internal audit and other oversight functions cannot occur with this type of document retention methodology, as the documents cannot be viewed without the cardholder's knowledge.

After an investigation that lasted almost two years, Moore was sentenced to 24 months to 60 months in state prison. A separate case was filed for Graham for a lesser dollar value of fraud, but, to date, he has not been sentenced. In addition, Moore was ordered to pay \$292,371 in restitution to the university. 

EMILY E. KIDD, CIA, CGAP, is the chief audit executive at the City of Reno, Nev.

The page features a series of horizontal lines in various colors: black, blue, grey, red, yellow-green, pink, orange, and light grey. Colored circles are placed at the end of some of these lines, creating a dynamic, abstract pattern. The word "EMERGING" is centered in a large, bold, black sans-serif font.

EMERGING

This year's standout practitioners exude talent, approach their work with passion, and are driven toward continuous improvement.

LEADERS

2018

Russell A. Jackson

For a diverse group, this year's Emerging Leaders are surprisingly unified on important aspects of their expanding influence in internal audit. For example, they're unanimously enthusiastic about supporting the profession, through internal and external advocacy, association activity, and educating undergraduates about career opportunities. Moreover, they're uniformly confident they'll rely more on technology to do their jobs tomorrow, and they expect their audit work to involve more IT assessment across the board. And they're looking forward to it – they're confident they have, or can easily acquire, the skills they'll need to stay on top of technological evolution, whatever it turns out to be. Indeed, many of them are already tech leaders at their organizations, providing guidance on audit applications up and down the reporting ladder. But perhaps what unifies them most is that they all want to change the face of the profession and improve it in the eyes of stakeholders. Yet the 2018 Emerging Leaders aren't abandoning the profession's established high standards and effective practices. Instead, they see a bigger picture of internal audit – one that shows practitioners' unique access to and understanding of areas across the business and the diversity of information and advice they can provide. The 2018 class expects to play a meaningful role in their organizations' operations and success, to be sought out as trusted advisors, to track trends inside and outside their enterprises, to provide key data and insights to management on strategic issues, and to assist in assessing the results of their organizations' efforts.

ALEX HARDY

CIA, CA

30

**ASSOCIATE DIRECTOR,
AUDIT & ADVISORY**
PROSPERITY ADVISERS
GROUP
NEWCASTLE & SYDNEY,
AUSTRALIA



careers. “His ambition to attain a partnership role at the company is guided by his vision of transforming the firm’s audit practice and capitalizing on technological opportunities,” says colleague Stephen Coates, a director at Prosperity Advisers

ALEX HARDY has big ambitions, and one of them is helping young professionals move forward in their

Group. But Hardy’s proudest achievement, Coates adds, is being a mentor to junior staff. Already, Hardy is a founding member of the company’s Employee Advisory Board and, beyond the firm, he was named to the inaugural IIA–Australia Youth Leadership Committee. The University of Newcastle graduate is also executive director at Hunter Young Professionals, which provides opportunities for young people to network in a business environment. Indeed, says Bryant Richards, associate professor of accounting and finance at Nichols College and one of this year’s Emerging Leaders

judges, “No longer emerging, this individual is a current leader of the profession.” Hardy presents weekly to boards, shareholders, and management on audit outcomes and opportunities for improvement. And he provides pro bono professional services to Renew Newcastle, Cooks Hill Surf Lifesaving Club, and Ronald McDonald House. He also talks a lot about technology. “If you don’t know what blockchain, AI, big data, and real-time access mean, then you are already behind the eight ball,” Hardy says. “All of them are game changers, and a degree of fluency is important for future success.”

ROBIN NOACK

CIA, CPA

29

AUDIT MANAGER
FEDERAL HOME LOAN BANK
OF PITTSBURGH
PITTSBURGH



ROBIN NOACK understands that effective internal audit demands interaction with other areas of the business. The Pennsylvania State University graduate made a concerted effort to learn Federal Home Loan Bank of Pittsburgh’s new governance, risk, and compliance application—and ultimately developed many of the ways the internal audit department puts it to use, notes colleague Dawna Fisher, senior manager at Federal Home

Loan Bank. “She also developed a strategy for optimizing interactions with other departments to ensure identification of business unit risks and controls is complete and accurate,” she says. Noack’s strategy—established by coordinating with other lines of defense within the bank and working closely with the business units—enables internal audit to track audit-related issues that need validation and provide the follow-up on them that regulators require. Her team also prioritizes in-person interaction with clients. “We make every effort to socialize throughout the bank, building trust and positive relationships,” Noack says. Business unit leaders regularly request her insights on hot topics and emerging risks in the financial services sector. Noack says knowing the business is part of the job. “It would be impossible to effectively audit a business unit without an intimate understanding of how it works or without strong relationships with the people within that unit,” she explains. Additionally, Noack calls on the profession to better educate clients on the value internal audit delivers to the organization. “Everything we do as internal auditors is to protect the business’ interests and correct any mistakes before it’s too late,” she points out. Outside the office, Noack donates time to the local DePaul School for Hearing and Speech and the Pittsburgh Botanic Garden.

IT WOULD BE IMPOSSIBLE TO EFFECTIVELY AUDIT A BUSINESS UNIT WITHOUT AN INTIMATE UNDERSTANDING OF HOW IT WORKS OR WITHOUT STRONG RELATIONSHIPS WITH THE PEOPLE WITHIN THAT UNIT. –Robin Noack



JUSTIN FINN

CIA

28

**ASSISTANT VICE
PRESIDENT,
SENIOR AUDITOR**
BANK OF AMERICA
PLANO, TEXAS



JUSTIN FINN is “the auditor of the future, possessing both audit and analytical skills,” according to his supervisor, Jim McCole, senior vice president and audit director at Bank of America. Finn, a University of North Texas graduate, started out in the firm’s straight-from-college Corporate Audit Analyst Program, picking up business audit skills in issue validation, point-in-time audits, regulator issues, and continuous audit work in his first rotation. And with no previous Structured Query Language (SQL) experience, he learned to execute automation work relating to data analytics, exception testing, and continuous monitoring testing in the rotation that followed. Finn now serves as instructor for Corporate Audit’s SQL training program and as “automation sponsor” for the bank’s Audit Automation Analytics Champion program. “For sure, technology and the way we understand data will lead things forward,” Finn says. One example is data analytics and automation that enable full-population testing, eliminating the need for a sample approach, he says; another new technology that internal audit is adopting is artificial intelligence-driven ongoing monitoring that replaces some task work. Both require practitioners to develop new data analytic skills and delve beyond a superficial understanding of the technology. At Bank of America, Finn’s internal audit department focuses on finding and extracting data to create custom automation tests to help business line auditors with their own testing. “We can take the data and adapt it,” he says, “whether the internal audit client is looking for graphs or trends analysis, we can take the data and make a more meaningful picture.” Outside the office, Finn finds meaning in charitable work, volunteering at the local Ronald McDonald House and for Operation Kindness’ no-kill animal shelter.

LINH MAI is passionate about internal auditing and about sharing his knowledge of the profession. Indeed, The University of Texas (UT) at Dallas graduate served as the university’s IIA/ISACA/ACFE student chapter president as an undergraduate and at the same time was a teaching assistant at UT Dallas’ Center for Internal Auditing Excellence. He also became “the face of the UT Dallas Internal Auditing Education Partnership (IAEP) program,” says Center director Joseph Mauriello. “As student coordinator, he worked with leading internal audit departments and professional services firms to introduce themselves to UT Dallas IAEP participants.” Mai also organized student volunteer efforts for the IIA–Dallas Super Conferences and the UT Dallas Fraud Summit. He has since delivered numerous addresses to internal audit audiences on developing student organizations, and he volunteers with ISACA’s North Texas Chapter. At EY, he leads audits on

areas ranging from Sarbanes-Oxley compliance to cybersecurity. “Sometimes innovative thinking is a matter of thinking differently about an existing innovation,” Mauriello says. “He accomplishes this through his advocacy efforts.” Part of his message is the reality of the profession’s role. “I had the impression that most companies, operations, and internal audit functions were mature,” Mai says. “However, the reality is there is significant potential for audit functions to generate value by advising and consulting on improvements in business processes.” He adds that he’s inspired and motivated by the vast opportunities for internal audit to help stakeholders, especially with the aid of technology. “I envision more processes, such as internal controls over financial reporting, requiring less overhead while providing more useful data,” Mai explains, “allowing internal audit a greater opportunity to become advisors and freeing them from strictly regulatory or compliance functions.”

LINH MAI

CIA, CISA

27

**SENIOR, IT RISK
ASSURANCE**
EY
DALLAS





**KAMAL UDDIN
GAZI JISHAN**

ACCA
28
DEPUTY GENERAL
MANAGER, INTERNAL
AUDIT
BRAC
DHAKA, BANGLADESH

KAMAL UDDIN GAZI JISHAN tackles complex assignments every day—some technologically complex, some more logistically so. Nanda Dulal Saha, director of Internal Audit at BRAC, says a recent operations-level, organizationwide risk assessment and the adoption of a new system audit approach required “strong and controlled teamwork” to deliver the audit strategy, risk assessment, and reporting—and Jishan was part of those teams. The organization’s internal audit department numbers more than 300, one of the biggest anywhere in the world. Jishan, an Oxford Brookes University graduate, also led a project to automate the department’s report compilation and comparative results analysis, using customized internal audit management system software to pilot the automation before a successful launch. Jishan was recently assigned to the organization’s Kabul-based Afghanistan operations for a country office audit. “I try to gather as much information as possible on the entity before the actual visit by browsing through financial information, management reports, and information available on websites,” Jishan says. “I like to bring as much familiarity as possible with the operations of the project as well as the environment.” Away from the office, Jishan is active in the Bangladeshi audit and accounting community and, Saha says, “he takes pride in representing the global profession of internal audit—The IIA—and promotes membership and certification to that peer group.” Indeed, Jishan reports that he’s looking forward to the CIA Challenge Exam this month; he also emphasizes the value of seeing the bigger picture. “We need to remind ourselves every time of the broader objectives of an engagement,” Jishan advises, “and to focus less on finding out irregularities and more on building a strong, progressive relationship with management.”

NICK GEFFERS likes to build relationships and bring people together. Last year, he was invited to join The IIA’s Young Professionals Task Force, says the Task Force’s IIA North American Board liaison Seth Peterson, vice president and internal audit manager at The First National Bank in Sioux Falls and past Emerging Leader. Geffers has since been a key player in the group’s outreach initiatives, aimed at establishing connections with local chapters and enhancing collaboration. The University of Wisconsin Oshkosh graduate focuses on consulting and risk management assurance engagements at Thrivent and, Peterson adds, he recently became director of development for the company’s Young Professionals Network. “Getting involved with young professionals groups gives us a voice and a bigger part in our profession,” Geffers says. “The power of connection is priceless.” He adds that participating in these groups

will always be “incredibly important,” noting that it enables professionals to become connected to something greater than themselves and provides endless opportunities to make an impact. Geffers also supports The IIA’s Fox Valley Chapter as a past president and active board member. “While president, he created templates and standard processes, worked to add new board members from unrepresented organizations, and helped strengthen interchapter relations within the district,” Peterson says. In fact, Geffers says one aspect of the profession he likes even more than he anticipated is the amount of personal interaction involved—it’s one of his favorite parts of the job. He also notes that the more internal auditors connect with others, the more value they can provide—if they’re paying attention, that is. “As we move to becoming true strategic partners,” he says, “we need to listen more to our stakeholders.”

NICK GEFFERS

CIA
30
BUSINESS RISK MANAGER
THRIVENT
APPLETON, WIS.





VISIT OUR **MOBILE APP** to see a video featuring some of this year's Emerging Leaders honorees.

JAMIE L. OLSON

CIA
29
QAIP PROJECT MANAGER
U.S. BANCORP
MINNEAPOLIS



JAMIE OLSON loves learning, and in internal auditing, she says, she's "constantly learning something new." The University of Minnesota Duluth graduate started at her current company as a

staff auditor in Corporate Audit Services (CAS), then became a senior auditor, and is now the department's Quality Assurance Improvement Program project manager. Olson was one of 14

U.S. Bank employees selected for a year-long program established to "demonstrate how U.S. Bank is 'the bank of choice for millennials,'" reports colleague Krista Naccarato, senior audit manager. That program includes collaboration with senior management and committees across the bank, she adds. Olson values her unique opportunity to participate in the program. "It allows me to meet with leaders in the organization to learn more about their business areas and support the bank on a companywide level," she says. She meets often with professional peers as well, as treasurer and past vice chair of the Young

Professionals Committee of The IIA's Twin Cities Chapter. That emphasis on relationship-building positively impacts her career, she says, by broadening her network and helping her better articulate risks and how they relate to the company as a whole. Those risks, she adds, are becoming increasingly digital, noting that practitioners need to embrace new technology to become more efficient and effective leaders. "If I could change one thing about the profession, it would be the SALY [same as last year] testing mentality," she says. "We need to keep looking toward the future, and not just focus on the current state."

RSM celebrates the power of great people.
Congratulations, Thanh Nguyen.

It gives us tremendous pleasure to recognize the achievements of **Thanh Nguyen**.
Congratulations for being honored as Internal Auditor Magazine's 2018 Emerging Leaders.

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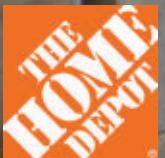


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Congratulations, Thomas Sherrill!

Recipient of the **2018 Emerging Leader Award**

Thomas is a Manager in the Assurance & Advisory Management Program and has been instrumental on numerous audits and process improvement projects. We thank him for living The Home Depot's core values and being a trusted leader for the team!



“ I’M TAKING ON ADDITIONAL RESPONSIBILITIES WITHIN ACADEMIC RELATIONS, EDUCATING STUDENTS AND GETTING THEM INVOLVED, TO EXPAND THE IIA’S PRESENCE IN THE COMMUNITY. ”

–Brian McNalley

Internal auditing is enhanced by creativity. **MICHELLE CHELEMER** displayed it in spades when she developed a new way to evaluate her company’s sales practices, says manager Joshua Mountz, audit director at SunTrust Bank. The Oglethorpe University graduate “created a cookie dough start-up company and performed secret shopping at branches,” Mountz says, “providing meaningful issues for management to consider that will impact our client experience going forward.” Chelemer explains that the project assessed the accuracy of teammate product knowledge and evaluated marketing materials. “The experience was exhausting, but exciting,” she says. The project received executive-level attention—and inspired organizationwide changes. Mountz adds that Chelemer is seen as a trusted advisor to business partners, and that she’s been

recognized at SunTrust with a Gold Performance Excellence Award. He notes as well that she uses the bank’s data analytics resources to examine 100 percent of populations for control testing when feasible and to evaluate automated controls design. She also helps lead recruiting by examining candidates’ qualifications, screening them by phone, and performing interviews; she then trains the new teammates and helps her directors evaluate their performance. Mountz says she’s “the first person that anyone on the team goes to with questions, her directors included.” Chelemer, who also co-founded the Business Leadership Development Fellowship at Oglethorpe and volunteers with the Junior Achievement Discovery Center at Finance Park in Atlanta, thrives on the many areas with which she’s involved. “I’ve always been invigorated by challenges,” she says.

MICHELLE CHELEMER

CIA, CPA
29
**SENIOR AUDIT MANAGER,
SUNTRUST AUDIT SERVICES**
SUNTRUST BANK
ATLANTA



BRIAN MCNALLEY

CISA
30
IT AUDIT MANAGER
MACY’S INC.
CINCINNATI

BRIAN MCNALLEY combines technical expertise and a passion for the profession. “He’s actively involved in The IIA and has a strong focus on data analytics, which is a key area for internal auditors,” notes Jenitha John, CAE at FirstRand Bank and one of this year’s Emerging Leaders judges. “And his chapter leadership achievements are noteworthy.” The University of Cincinnati graduate has been volunteering for The IIA’s Cincinnati Chapter for seven years—in fact, during his time as vice president and president, meeting attendance nearly doubled, notes colleague Branden Keller, a senior IT audit manager at Macy’s. He lauds McNalley’s emphasis on networking events aimed at helping “like-minded auditors meet each other” and his focus on academic relations. “I’m taking on additional responsibilities within academic relations, educating students and getting them involved, to expand The IIA’s presence in the community,” McNalley says. That’s been complicated by a focus on external auditing at local universities, he adds, so the chapter has been holding events to show students the benefits of becoming an internal auditor. The IIA experience, says McNalley, who expects to start exams this fall in pursuit of CIA certification, has been one of the most rewarding of his career. His message to those early-career colleagues: “Getting involved is definitely appreciated and provides some great opportunities.” McNalley also has a strong interest in technology; he’s a data analysis specialist and has built custom scripts to automate testing. “I’d like to continue changing the sample-based testing approach,” he says, “and test full populations with analytics and audit tools.” He also notes that adapting to change is one of the best parts of being an IT auditor. “It keeps our profession from becoming too routine.”

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HAYLIE KWON wants people to understand internal auditing better. The Korea University graduate says her main emphasis when promoting the profession—to junior staff and university students—is to explain who its practitioners really are. “We are not law enforcement that will find out what you did wrong and punish you,” she says. “I want people to view us more as advisors.” Supervisor Karin Hill, director of internal audit at Texas Health & Human Services, notes that Kwon has ascended the career ladder quickly, and that she is well thought of by those under her supervision. “Staff assigned to her teams are extremely complimentary of her leadership style,” Hill says, adding that Kwon pays compliments, too—she chaired IIA–Austin’s Awards Committee and started the practice of reaching out to volunteers’ supervisors to thank them for supporting staff as they serve the profession. Part of Kwon’s successful style is tracking the evolution of audit clients as they adapt to their own clients’ changing expectations. “We need to be aware of new risks that emerge from those changes,” she explains, “and seek smarter ways to audit so that we can meet our clients’ needs.” That should contribute to a perception shift she feels is crucial, because it affects how internal auditors build relationships with those clients. “We need their cooperation and trust,” Kwon says, “to truly understand the nature of their work and

HEA MEE (HAYLIE) KWON

CIA, CPA

30

**AUDIT PROJECT
MANAGER**

TEXAS HEALTH & HUMAN
SERVICES
AUSTIN, TEXAS



what they are trying to accomplish.” That message needs to be taken to younger audiences, she urges, emphasizing more focus on exposing the profession to undergraduate students—something that she and her classmates never experienced. “As graduates of one of the top business schools in Korea, we were going to be the next generation of business leaders” she explains. “However, we were never exposed to internal auditing, only financial auditing.” Kwon says she was lucky to find her way to internal audit—but bemoans the “many bright young minds that aren’t aware of our profession.”



THOMAS SHERRILL

CPA

28

**MANAGER, ASSURANCE
AND ADVISORY
MANAGEMENT PROGRAM**

THE HOME DEPOT
ATLANTA

THOMAS SHERRILL builds ties that bind—and that save companies money. “He develops strong relationships with his business partners that create open channels for discussion to gain insights into processes and issues,” says his boss, Bob Anderson, vice president of internal

audit and corporate compliance at The Home Depot. He adds that the University of North Carolina graduate identifies solutions that provide value to stakeholders and company shareholders—including more than \$3 million in cost-out opportunities in just 24 months—and

“combines personal relationships with data analysis skills.” The relationships, Sherrill says, are crucial to the audit function’s success. “I always emphasize that creating genuine and strong relationships will make your work personally rewarding,” he explains, “and will allow you to gain information and knowledge around business processes that will help you succeed.” Sherrill, who was awarded IIA–Atlanta’s Mulcahy Leadership Award this year, has led audits across all facets of Home Depot’s business, from mature processes in the finance space to supply chain processes in newly acquired subsidiaries. Additionally, he was last year’s chair of the Diversity and Inclusion Committee for the company’s Internal Audit

group. Sherrill also donates time outside of work to help the Empty Stocking Fund distribute toys to underprivileged families during the holidays and pitches in with volunteer landscaping and maintenance assistance at Piedmont Park. Looking toward the future, Sherrill—who recently passed the first set of exams on his way toward CIA certification—says internal auditors will have to keep up with rapidly changing technology by adding skills to their tool sets and continuously learning about new systems and processes. He adds: “The same core characteristics of current professionals—honesty, intellectual curiosity, and ethics—will be as important in the future as they are today.”

Judging Panel

The panel of internal audit professionals who selected this year's Emerging Leaders were impressed most of all by the honorees' passion for both the technical specifics and broad scope of their work. They can't wait, the judges discovered, to maximize the opportunities internal audit offers to influence their organizations' strategy and success at the highest levels. The judges – who, like the honorees, represent all types of organizations – applaud the emphasis on being seen as trusted advisors. They also commend the Emerging

Leaders' ambitious efforts to better understand their employers' operational specifics in far-flung and diverse locations. Moreover, panelists note the Emerging Leaders' commitment to paying it forward professionally, working with university groups to show what careers in the profession are really like and with peer associations to maximize young internal auditors' advancement options. In all, the judges report, this year's group of young leaders is exceptional – and ready to put their considerable skills to work.



SHANNON J. URBAN, CIA, CRMA, executive director, Ernst & Young LLP; vice chair, Professional Guidance, IIA Board of Directors. What struck Urban most about 2018's Emerging Leaders is their commitment to building new skills, knowledge, and experience. "This will be a crucial trait of internal auditors in the future," she says, "as the world gets increasingly complex, technological capabilities and possibilities expand, and the pace of change gets faster."

BRYANT RICHARDS, CIA, CRMA, associate professor of Accounting & Finance and Accounting chair, Nichols College; member, IIA Publications Advisory Committee; contributing editor, *Internal Auditor's* "Fraud Findings" department. Judging by this year's Emerging Leaders, internal audit attracts "talented individuals with a passion for helping others," Richards says. "This is a group that leads through service."



J. MICHAEL PEPPERS, CIA, QIAL, CRMA, chief audit executive, The University of Texas System; immediate past chairman, IIA Board of Directors. In the past, finding and recruiting talented professionals was difficult, Peppers says. But the 2018 Emerging Leaders make it clear that the tide has turned. "They're a clear validation of

our profession's collective efforts to enhance internal audit education, deliver comprehensive certification programs, and provide meaningful employment opportunities in which they can be challenged and excel," Peppers says. "I don't think our future could be in better hands."



JENITHA JOHN, CIA, QIAL, chief audit executive, FirstRand Bank; vice chair, Professional Certifications, IIA Board of Directors. Tomorrow's internal audit leaders will face an ever-evolving risk landscape, John says. They'll be ready. "The sheer brilliance and passion exuded by the Emerging Leaders was very heartening," she says. "This year's honorees appear to be more enthusiastic around efficient practices." Indeed, she adds, "the pipeline of talent makes the future look bright."

JAIMIE YANG, CIA, CISA, CPA, senior internal auditor, Raytheon Co.; 2016 Emerging Leader. The 2018 Emerging Leaders are "well-rounded champions and advocates of internal audit," Yang says. She notes their tendency to "look for opportunities for process improvement and for developing innovative audit techniques," as well as their ability to use data analytics and other emerging technologies as a means of assisting stakeholders.



KRYSTLE AGUIRRE, CISA, senior auditor, Southwest Airlines; 2015 Emerging Leader; member, IIA Young Professionals Task Force. The biggest challenge this year's honorees will face is "knowing how to interact with a multigenerational workforce," Aguirre says, because *multigenerational* means no one-size-fits-all approach to communications will work. The 2018 Emerging Leaders have "demonstrated their commitment and passion for the profession," she adds, "through their willingness to go above and beyond what is asked of them."



KYLE HEBERT

CIA
30
SUPERVISOR, AUDIT
COORDINATION
COBX
LANSING, MICH.

KYLE HEBERT understands the importance of institutional memory. When he undertakes major projects, the Northwood University graduate “takes it upon himself to work with others, with a goal of making a positive impact through knowledge sharing, encouragement, and team building,” says former supervisor Sarah Saunders, director, Internal Audit, at Jackson National Life Insurance Co. Indeed, Saunders reports, he approached every project with the intention of growing someone to replace him. In fact, Hebert cites on-the-job mentoring as one of the most beneficial elements of career development. “If you do not have a good mentor, it will be hard to pick up on the important aspects of auditing, such as how to communicate results to a stakeholder,” he says. And he pays it forward, too. Saunders calls him one of the most dedicated volunteers she’s ever seen, explaining that he “jumped in, all in, from day one” at The IIA’s Lansing Chapter, where he now serves as president. Hebert created a new Day of Audit training program and worked to improve relations with local chief executives. “Don’t be afraid to get more involved with your career outside your 9-to-5 commitment,” he urges. On the other hand, Hebert cautions that practitioners should be afraid of technological complacency. “We can’t become complacent on the skills we have because they’re becoming obsolete exponentially faster each year,” he says. In his role at COBX, a company within Blue Cross Blue Shield of Michigan’s Emerging Markets division, Hebert oversees the internal and external audit coordination teams, he reports, “ensuring that stakeholders are knowledgeable of what is expected of them from the auditors and regulators, and ensuring that auditors and regulators are receiving information they have requested from the business.” He also leads the department’s annual risk assessment.

Just three years into his own career, **DIEGO HENRIQUEZ** is already assisting others in theirs. The Louisiana State University graduate is a CFO Transition Lab Manager at Deloitte, executing customized eight-hour workshops at some of the world’s biggest organizations. The sessions assist new C-suite executives, including chief audit executives and chief financial officers, in analyzing talent, organization, priorities, time allocation, and relationships. Henriquez and his colleagues then work with each individual to develop a 180-day plan for transitioning into his or her new role. “My work on executive transition labs has provided tremendous insight that allows me to better understand how senior executives operate and strategize to deliver results,” he says. Colleague Sarah Fedele, a Deloitte principal, notes that Henriquez was recognized as a 2017 IA Transformer of the Month, an award that honors leadership within the practice. Fedele adds: “Ask

anyone who has worked with him to describe his leadership style and you’ll find a common response: ‘He leads by example.’” After work, Henriquez is the Houston Food Bank site lead for Impact Day, Deloitte’s firm-wide volunteer event, leading planning efforts and shepherding the participation of more than 300 colleagues. Fedele says he handles that role masterfully and with enthusiasm.” He’s also an onboarding advisor for Deloitte interns and consultants, and he’s heavily involved with the company’s campus recruiting efforts. Henriquez is enthusiastic about his work and says internal audit at a professional services firm affords him the opportunity to see a wide range of industries, processes, and departments. “Other professions might focus on one area of a business,” he says, “but my work has helped me develop a unique perspective because I am exposed to so many different aspects of my clients’ businesses.”

DIEGO HENRIQUEZ

CIA, CPA
27
SENIOR CONSULTANT
DELOITTE & TOUCHE LLP
HOUSTON



BLAKE REED

CIA

28

**ACCOUNTING MANAGER,
NORTH AMERICA SUPPLY
CHAIN CONTROL**

NIKE INC.
MEMPHIS



When **BLAKE REED** starts a job, the University of Memphis graduate makes an immediate impact. Applying his understanding of process improvement, finance, and accounting, he establishes himself as a go-to person for internal audit best practices and control guidance. He provides management with specific options for improvement by using data analytics to identify important trends in the enterprise's workflow. Indeed, he's "already in a managerial role," notes Emerging

Leaders judge Jenitha John, "which I believe is an achievement for someone his age." Since being nominated, Reed's title no longer indicates internal audit, but past posts have included internal audit manager at AutoZone, where he managed Sarbanes-Oxley compliance, oversaw business process audits, and managed the risk assessment and planning process. Reed has also conducted analytic testing of full population transactional data and executed IT audits. "The ability to understand legacy systems and the capabilities of new technologies is going to be the standard moving forward for internal auditors," he says. "An internal auditor needs to be able to effectively evaluate a system to determine whether it meets the business' need." Future practitioners will need to be well-versed in technology and operations to assess and address risk effectively, he adds, but auditor-client interaction will always be just as important—he says he notices its effect on engagements all the time. Reed cites, for example, his clients' frequent use of the inclusive pronoun "we," instead of "they," when discussing a project. "Little things like that let you know you are having an impact and the business sees you as a true value-add partner." Outside the office, Reed advocates for St. Jude Children's Hospital and the American Society for the Prevention of Cruelty to Animals.

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THANH (ALAN) NGUYEN

CIA, CFSA, CRMA, CCSA
30
**MANAGER, RISK
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AND CONSULTING CO. LTD.
HO CHI MINH CITY, VIETNAM

ALAN NGUYEN understands the importance of the big picture. “He always focuses on the key objectives of the clients’ departments,” says former colleague Tham Ta, an audit staffer at Nguyen

Kim Holdings. “He regularly updates his knowledge of not only all areas of his organization’s operations, but also of the industry as a whole and of business in general.” And that, according to Ta, is why

Nguyen adapts quickly and provides effective strategic ideas. Many of those ideas, in fact, have contributed “significant improvements to the organization’s governance, internal control, and risk management processes,” Ta adds. Nguyen says it’s part of the job. “As one of four cornerstones of governance, internal auditors need to improve and reinvent themselves,” he explains, “and stay updated on not only trends in the industries they work in, but also on global trends.” His motivation for learning is simple. “In Vietnam, internal auditing is new, and the profession is being developed slowly,” he explains. “Helping

it move forward prompted me to develop myself as a professional.” Ta reports that Nguyen works actively as a volunteer to help the elderly, orphans, and the homeless. As a practitioner, he says tomorrow’s auditors will, among other qualities, need to be trustworthy, diplomatic, and patient. They must possess strong interpersonal skills, he adds, as well as the ability to think strategically. Nguyen says their reward will be “a holistic view of operations and processes that affords a perfect opportunity to be someone who knows everything about something, and something about everything.” 



The IIA – Twin Cities Chapter congratulates Jamie Olson for being named a 2018 Emerging Leader by *Internal Auditor* magazine! Jamie served the Twin Cities Chapter as Assistant Treasurer and Vice Chair of the Young Professional Committee from 2017-2018, and is currently serving as the Chapter’s Treasurer. We are proud of Jamie’s accomplishment, and thank her for her dedication and commitment to our Chapter and the internal audit profession!

Congratulations Jaime!





The IIA Atlanta Chapter congratulates Michelle Chelemer and Thomas Sherrill as Internal Auditor Magazine's 2018 Emerging Leaders



Michelle Chelemer, CPA, CIA

- 2018 winner of the William J. Mulcahy Excellence Through Leadership Award of the IIA Atlanta Chapter
- SunTrust — Senior Audit Manager
- 2017 SunTrust Gold Performance Excellence Award Winner
- Member IIA Atlanta Chapter Young Professionals Group



Thomas Sherrill, CPA

- 2018 winner of the William J. Mulcahy Excellence Through Leadership Award of the IIA Atlanta Chapter
- Home Depot — Manager, Assurance and Advisory Management Program
- Member IIA Atlanta Chapter Young Professionals Group
- Frequent speaker at IIA Atlanta Chapter meetings



The IIA Atlanta Chapter's mission is to be the premier professional association dedicated to the promotion, advocacy, and development of the practice of internal auditing in the Greater Atlanta Metropolitan Area. This shall include, but is not limited to, the following: Professional development, promotion of IIA certifications, internal audit research and information sharing, and working with universities to promote internal audit education. The IIA Atlanta Chapter worked with Kennesaw State University and Georgia State University to establish IIA Internal Audit Educational Programs (IAEP) at both universities.



An active approach to career management can mean more opportunity and long-term success.

TEN TIPS

to
manage
your
career

Richard J. Anderson




W

hile working in internal audit for more than 30 years within corporate functions and professional service firms, one of the most fulfilling things I've done is counsel and assist associates with various pieces of their careers. Helping people make good career decisions and watching them develop to their full potential should be an objective of any professional.

The opportunity to serve in this role has allowed me to identify and understand career challenges internal auditors repeatedly run into and help them develop the skills to better manage their careers and avoid these common pitfalls. Mastering 10 skills can help internal auditors better position themselves to take advantage of opportunities and enable them to prosper in today's work environment.

one.

Differentiate yourself from your peers.



What unique skills and experiences do you have, or are you developing, to differentiate yourself? Too often, internal auditors have not focused on this question and are not able to articulate which demonstrated strengths and key attributes set them apart from their peers. It is not just a matter of stating a skill or attribute—they should be able to give examples that demonstrate they possess that skill or attribute.

Using generic descriptive phrases such as “I’m a hard worker” or “I have high ethics” doesn’t differentiate a person, as many people use them. At any level or position, internal auditors need to continue to build skills and experiences that make themselves more valuable and also set them apart from peers.

Auditors also should practice their interviewing skills. Are you able to clearly articulate what your key strengths and differentiating qualities are? In particular, when you interview, do you know what qualitative skills and attributes you want to communicate to an interviewer? Résumés also should be updated to communicate these qualifications.

two.

Learn to develop and maintain relationships.

One of the most important career skills is the ability to build and maintain professional relationships. Access to a network of professionals is valuable and can be used for a broad range of activities, such as sales opportunities,

references, staffing and job opportunities, coaching, and insights on companies and executives.

But building and maintaining a network is a process. Internal auditors should consider who they network with and why, then develop a process to support and reinforce networking activities. For example, practitioners should keep track of when they interact with people or maintain a list of people with whom they need to reconnect.

While social media networks are fine for many purposes, professional networking requires a personal touch and interaction. People in your network need to know you and your capabilities so that when a need arises, they are happy to help.

three.

Set long-term goals but manage your career in terms of “orbits.”

Goals give you something to work toward in your personal and professional life. However, in today’s dynamic work environment, reaching those goals may seem daunting. The uncertainty of constant change presents a challenge in developing a clear path to goals, especially long-term goals. Studies have shown that writing goals increases an individual’s probability of achieving them.

Alex McKenna, a career counselor for senior executives, advises people to think about their careers in two- to five-year increments, which he refers to as “orbits.” When in an orbit, the focus should be on performing well while building skills and experiences that qualify you to move to a higher orbit. That higher orbit could be a higher-level position

23% of top executives fail to keep in touch with members of their network or reach out only when they need something, says a 2017 survey by Robert Half Management Resources.

or a position in a different organization where your skills and experiences would be better used. In that higher orbit, you would look to add new skills and experiences to reach an even higher orbit.

four. Create your own opportunities.

Rather than just waiting for unique or challenging opportunities to come their way, internal auditors should seek out those assignments. If a problem has been identified, be one of the people to fix it. There are benefits to volunteering for the tough assignments. First, tough assignments grow skills and offer unique experiences. Often, fixing major problems involves developing new approaches or applying new thinking rather than just performing routine assignments. Second, these are the assignments where internal auditors get noticed. Being part of a team that addresses major issues or problems gets the attention of more senior people, which is the attention auditors want.

five. Learn to focus your time and activities.

The 24/7 work cycle and other complexities can be overwhelming at times and may lead internal auditors to jump from one task to another. At the end of what seemed to be a very busy day, an auditor may be unable to answer the question, “What did I accomplish today?” Time is your most valuable and limited asset. You can’t

create more of it, and it easily can be wasted.

So, it’s important to focus on the most important tasks and get them done. Auditors should operate every day with focus, know what needs to be accomplished, and direct energy to that task. Various methods can assist in this process, such as to-do lists, priority lists, or daily reminders. Whatever is used, the most important thing is to learn to instill the discipline of focus in daily activities.

six. Get a mentor.

With critical or challenging career situations, it helps to have access to someone you trust, respect, and feel comfortable seeking advice and counsel from — someone who also has confidence in you and is interested in your personal development and progression. Internal auditors should look for opportunities to develop real mentoring relationships with someone who can help. These relationships tend to develop over time and can’t be forced. A good mentoring relationship develops itself, and networking and relationship building play an important part. Over time, these relationships can change and evolve. You may even have more than one mentor during your career.

The mentoring relationship is rewarding for both mentor and mentee, so auditors also should look for opportunities to be a mentor. This can start early in a career by giving advice and counsel to newer staff. Mentoring helps develop communication and leadership skills, expands networks, and leads to personal satisfaction.



seven.

Always understand the needs of your employer or potential employer.

Too often, employees do not really understand the specific needs of their employer or prospective employer. There may be a job description, but it may not highlight critical expectations or skill needs. This can lead to a misalignment between the unspoken expectations of a superior and an employee's skills or performance. Such misalignment can prove fatal to a career.

This same concern arises when an employee is approached about another position. Discussion, especially with a headhunter, may focus on things like compensation and title and not enough on the specific needs, expectations, and skills required to be successful in that position. Knowing these things will significantly improve a person's chances of making a good career decision. And, it will ensure that the new employer is getting an individual well-suited to the job. Fundamental to succeeding in this process is a person's deep understanding of his or her own real skills and abilities.

eight.

Give your employers and co-workers the benefit of your objective views.

One of the attributes that most great leaders value is having employees who will give them good, objective views. In the internal audit profession, stakeholders highly value objective feedback from their auditors. Similarly, peers also value and seek the opinions and

views of others. It's part of the learning process.

Auditors should learn to objectively express opinions and views constructively and with courage and conviction. This also will establish you as someone with a voice. Practitioners should not hide behind auditor independence. Internal auditors are sometimes reluctant to provide their views or recommendations because they said they needed to remain independent. That rationale rarely is one that management executives will buy into. Internal auditors can provide views, feedback, and recommendations without impairing their independence.

nine.

Understand the role and nature of compensation.

Everyone wants and deserves to be fairly compensated for their efforts and achievements. Compensation is an important factor in any job, but its nature and impact are often misunderstood from two standpoints. First, while an increase in compensation provides great, immediate, and positive reinforcement, compensation, itself, is not a long-term motivator. The factors that provide long-term job satisfaction include things like challenging work assignments, increased personal responsibilities, and exposure to executives and challenging situations. Long-term, high compensation will not overcome the absence of these kinds of motivators and will not, in itself, make up for a poor job situation.

Secondly, compensation should be viewed as a dynamic process—not just a point-in-time, static measure. At any time, an employee could be offered a position for more money than he or she is currently making.

Communication is ranked as one of the top three skills chief audit executives focus on when recruiting, according to the 2018 North American Pulse of Internal Audit.

Similarly, market conditions may result in a new hire being paid more than someone who has been there longer. Does your compensation reflect how you have been recognized, how you are progressing, and how you are valued?

If not understood and appropriately handled, compensation can be a major reason why a new job or opportunity does not work out. We all like to be flattered by a high offer; however, the real question is the nature of the position.

ten.
Communicate.


Communication may be the single most critical career skill, and it's important that

internal auditors establish a track record of clear and open communication with peers and superiors. This is especially important when there's a problem with a position, co-workers, or managers. Too often, employees are reluctant to put issues on the table, often from fear that they might be viewed as a troublemaker or asked to leave.

When concerns are not communicated, internal auditors risk making significant career decisions—such as leaving a job—without the benefit of full knowledge. A practitioner may be surprised to find that someone he or she speaks to agrees with and supports his or her views, or that he or she is more valued than previously thought. For example, if a particular job is not working out but management views

an auditor highly, he or she may be placed in another position in the organization that is a better fit.

SHAPE YOUR CAREER

It is probably unrealistic to expect anyone to simultaneously address all 10 items on the list. Picking one or two to start with is ideal. Then as these skills are developed, auditors can go back to the list and identify one or two more to work on. Ultimately, it's about managing your career in a way that helps you succeed and creating a satisfying, rewarding professional experience. 

RICHARD J. ANDERSON, CPA, is clinical professor of risk management at DePaul University in Chicago and a retired partner of PwC.



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The world has changed radically since 2004, the year The Committee of Sponsoring Organizations of the Treadway Commission (COSO) published its original, principles-based *Enterprise Risk Management (ERM)–Integrated Framework*. Since that time, there have been tremendous technology advances, the continued development of a truly globalized economic system, and lingering impacts from a devastating recession that sprung from the banking and financial crises of 2007.

In parallel, risk management and internal audit practices have evolved as both professions have become more globalized and well-regarded within organizations. Risk guidance has improved. COSO significantly revised its ERM framework in 2017, introducing some important new features that can be of great help to organizations, risk managers, and internal auditors. In addition to COSO, the International Organization for Standardization published guidance

In any kind of weather



Through its assurance and advice, internal audit can help the organization apply the principles of COSO's ERM framework.

Paul Sobel

in 2009 (ISO 31000:2009) and revised it this year (ISO 31000:2018).

One year after COSO issued its updated framework, many internal audit functions are working to apply the new framework to help their organizations weather the risks that are on the horizon. The ISO standard and COSO framework are now closely aligned and complementary. However, the COSO framework provides more detailed guidance around managing risk.

WINDS OF CHANGE

The 2004 COSO ERM Framework introduced some advances in risk management. First, it helped bring greater consistency and veracity to risk management processes and systems. Second, it stated that the context in which business risk arose was crucial—risk needs to be seen in the light of an organization's objectives. The framework emphasized the notion that risk management was not just about mitigating risk, but about providing organizations

with a range of appropriate responses, depending on how much risk they wanted to take. These factors have helped risk management become mainstream in many organizations.

COSO's *ERM Framework—Integrating With Strategy and Performance* makes those ideas much more central and extends them to cover recent thinking in risk management theory and practice. This can be seen throughout its 20 core principles (see “COSO ERM Components and Principles” on page 49) and is further underpinned by giving governance and culture a powerful role to play. In addition, the revised framework emphasizes information, communication, and reporting to give boards

and management accurate and timely information to make effective decisions. Moreover, the document urges organizations to look as much to the upsides of risk as to the potential downsides and for internal auditors and other advisors to do the same.

PINPOINTING EXTREME WEATHER

For internal audit to contribute effectively to the organization's risk management efforts, it must understand how the revised COSO ERM framework can be applied in practice. COSO has produced some sector-specific examples of how to apply the framework in *Enterprise Risk Management—Integrating With Strategy and Performance: Compendium of Examples*.

One risk that almost any organization faces relates to extreme weather events such as hurricanes, tornados, and floods. The application of COSO ERM to this type of risk can be illustrated by mapping the framework to the COSO ERM components. Environmental risks are covered in draft guidance that COSO has developed with the World Business Council for Sustainable Development, *Applying Enterprise Risk Management to Environmental, Social, and Governance-related Risks*.

Governance and Culture To start, the organization should establish governance for effective risk management for extreme weather events, just as it would for any other threat. However, discussions at the board level could evidence the importance the board places on understanding the potential impact and likelihood of weather events. Moreover, it should convey the board's desire to ensure such events are managed appropriately. This step maps to the framework's governance and culture component (principles 1–5). These principles cover everything from exercising board risk oversight to considerations of how to develop

One risk that almost any organization faces relates to extreme weather such as hurricanes, tornados, and floods.



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60% of respondents say the volume and complexity of risks are **increasing** and two-thirds have had an operational surprise from an unforeseen risk, The 2018 State of Risk Oversight Report notes.

COSO ERM COMPONENTS AND PRINCIPLES

GOVERNANCE AND CULTURE

- 1. Exercises Board Risk Oversight** – The board of directors provides oversight of the strategy and carries out governance responsibilities to support management in achieving strategy and business objectives.
- 2. Establishes Operating Structures** – The organization establishes operating structures in the pursuit of strategy and business objectives.
- 3. Defines Desired Culture** – The organization defines the desired behaviors that characterize the entity's desired culture.
- 4. Demonstrates Commitment to Core Values** – The organization demonstrates a commitment to the entity's core values.
- 5. Attracts, Develops, and Retains Capable Individuals** – The organization is committed to building human capital in alignment with the strategy and business objectives.

STRATEGY AND OBJECTIVE-SETTING

- 6. Analyzes Business Context** – The organization considers potential effects of business context on risk profile.
- 7. Defines Risk Appetite** – The organization defines risk appetite in the context of creating, preserving, and realizing value.
- 8. Evaluates Alternative Strategies** – The organization evaluates alternative strategies and potential impact on risk profile.
- 9. Formulates Business Objectives** – The organization considers risk while establishing the business objectives at various levels that align and support strategy.

PERFORMANCE

- 10. Identifies Risk** – The organization identifies risk that impacts the performance of strategy and business objectives.
- 11. Assesses Severity of Risk** – The organization assesses the severity of risk.
- 12. Prioritizes Risks** – The organization prioritizes risks as a basis for selecting responses to risks.
- 13. Implements Risk Responses** – The organization identifies and selects risk responses.
- 14. Develops Portfolio View** – The organization develops and evaluates a portfolio view of risk.

REVIEW AND REVISION

- 15. Assesses Substantial Change** – The organization identifies and assesses changes that may substantially affect strategy and business objectives.
- 16. Reviews Risk and Performance** – The organization reviews entity performance and considers risk.
- 17. Pursues Improvement in Enterprise Risk Management** – The organization pursues improvement of enterprise risk management.

INFORMATION, COMMUNICATION, AND REPORTING

- 18. Leverages Information Systems** – The organization leverages the entity's information and technology systems to support enterprise risk management.
- 19. Communicates Risk Information** – The organization uses communication channels to support enterprise risk management.
- 20. Reports on Risk, Culture, and Performance** – The organization reports on risk, culture, and performance at multiple levels and across the entity.

Source: COSO, *Enterprise Risk Management-Integrating Strategy With Performance*

the operational structures and culture needed to deal effectively with extreme weather events.

Strategy and Objective-setting In this step, internal auditors would seek to understand the risk in terms of the business' context and strategy. In this respect, the board and management need to understand how extreme

weather events may disrupt the pursuit of specific strategies and business objectives. The strategy and objective-setting component (principles 6–9) includes developing a risk appetite for this particular threat and considering alternative strategies for approaching risk management. This also includes how the business context impacts the organization's risk profile.

Performance Principles 10–14 cover performance of risk management. Selecting an extreme weather event as a specific risk covers principle 10 (identify risk). Management would next identify the possible outcomes from such events, based on its understanding of the business context and strategy, and this would feed into the assessment and prioritization of this risk. This assessment

requires understanding the potential impact of weather event outcomes and the likelihood that those events would occur at the impact levels envisaged. As with all risk assessments, management must be careful not to fixate on a particular event or outcome. Rather, it needs to consider the full range of possible outcomes.

From this assessment, management can determine which of those events and outcomes should be a priority to manage. Management should then consider its ability to mitigate the impact of those risks, as well as its appetite for related risk outcomes, and select the most appropriate risk management responses or strategies. It is important that the business assigns

responsibility and accountability for managing the risks.

Possible responses may include taking moves to reduce risk, such as disaster preparation, and taking measures to reduce the impact of extreme weather events. Organizations could consider risk sharing and secure insurance to limit the financial impact of such events. They may consider avoiding risk by moving a facility to a location less prone to hurricanes and flooding, for instance. Businesses may decide to accept the risk and wait to respond when the risk event happens because advance preparations may not be cost effective or practical.

Finally, management also could consider risk pursuit if the organization is in the type of business that can benefit from extreme weather risk. For example, it could quickly ship building products to areas affected by weather events to accelerate the rebuilding process or rapidly send medical supplies or water into affected areas. The key is that the organization should consider all potential scenarios and plan for the relevant ones.

Weather patterns change, so organizations need to evaluate whether their risk responses remain optimal.



IDIZ / SHUTTERSTOCK.COM

Review and Revision Weather patterns change, so organizations need to reassess the potential severity of extreme weather events and evaluate whether their risk responses remain optimal. Also, as these responses are tested by actual occurrences, management may reevaluate their capabilities to execute the desired responses based on their ongoing experiences. These map onto principles 15–17 in the review and revision component.

Information, Communication, and Reporting This component (principles 18–20) focuses on how extreme weather risk is communicated and reported throughout the business. The board must understand the context, the potential events and outcomes, the

54% of organizations don't have a formal **risk appetite** statement, with one-third saying senior management considers it "implicit," according to the 2018 AFP Risk Survey Report.

assessment and prioritization results, the rationale for the responses that have been chosen, and the results of the periodic reviews and assessments. This process also may include communication from management to risk managers to help them make more timely and effective decisions related to their risk management activities. This is likely to be empowered by digital communication channels within the organization.

THE ERM UMBRELLA

Not surprisingly, internal auditors need to thoroughly understand the new COSO ERM framework to help their organizations fully benefit from it. Part of internal audit's role is to educate the board, executive management, and others throughout the business about these ERM components and principles. In addition, internal audit needs to advise management and provide input to enterprise risk assessments.

The current framework puts a lot of weight on boards and executives receiving the right information at the right time to provide risk oversight and evaluate the effectiveness of risk management. To that end, internal audit can provide assurance and advice about whether the information that is being reported upward is comprehensive, accurate, and timely. This could take the form of one-off consultancy style exercises, be part of an audit, or be a report to the board.

Finally, internal audit must be in a position to evaluate the overall effectiveness of ERM, a role that has been in The IIA's *International Standards for the Professional Practice of Internal Auditing* for some time. Standards 2110: Governance and 2120: Risk Management direct internal audit to assess risk management. Despite that, there is not much guidance available on how to conduct a comprehensive assessment. Internal auditors could

use the 20 principles to perform a gap analysis throughout the business to see which elements of the guidance point to areas of risk management that require improvement.

AN ACCURATE FORECAST

And what of the internal audit function, itself? There are two areas of internal audit practice that the current COSO ERM framework will impact—planning and projects.

More than ever, internal auditors must understand the organization's business objectives and strategies when it comes to periodic audit planning. Auditors need to know what the risks are to those objectives and how those risks currently are managed. For example, has management considered alternative strategies to manage the risk, or are executives simply trying to mitigate it? What is management's tolerance to risk in that area and how open is that tolerance to variation around certain risks? The answers to these questions will influence what projects internal audit should undertake.

Audit's planning needs to be done in light of the organization's risk culture and risk appetite. These factors could have a major impact on the scope and testing approach designed for a particular audit if that audit is to provide assurance that is targeted at the right level of the organization.


If audit planning is executed in light of business objectives and management's risk culture and risk appetite, audit projects will take the same focus. That will mean that individual audit risk assessments will be better aligned with the organization's own risk assessment—and project scope and testing will be based on risk tolerance. Internal audit will report any deficiencies in the specific context of their potential impact on business objectives and on management's risk tolerances. Hopefully, this will lead to audit paying more

attention to the potential upsides of specific risks.

CLEAR SKIES

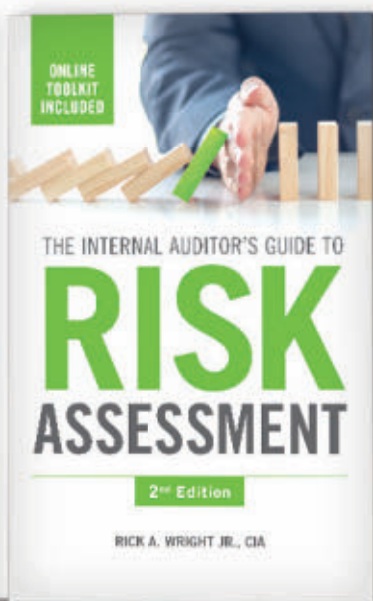
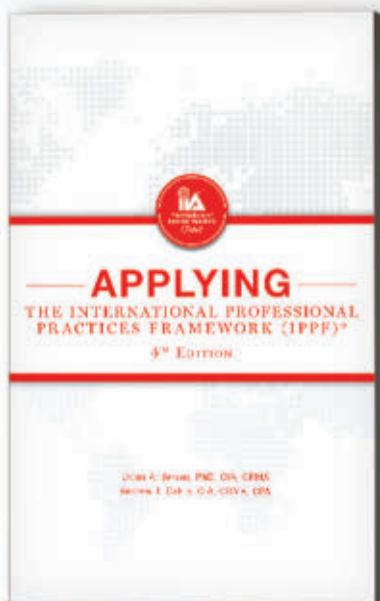
While many of the concepts in the current COSO ERM framework will be familiar to internal auditors, taken as a whole, it will represent a big leap in the quality of audit's contribution to the business if implemented appropriately. Few internal audit departments are able to do a comprehensive assessment of the overall effectiveness of their organization's ERM processes. The framework may enable internal audit to perform that assessment.

For internal auditors who are adopting the current framework for the first time, the key is to learn what it says and what it means to their organization in detail. Second, assessing the organization's current ERM practices against the framework's 20 principles can ensure auditors understand the guidance and have identified the most obvious gaps to remedy.

Third, if internal audit hasn't already done so, it should start to audit and report in the context of the business' objectives because this can help bring alive what the framework is about and make audits even more useful to management. Finally, internal audit should begin to take a more holistic approach to understanding the risks the organization faces and communicate that to management. That will help management understand risk better and how its responses to threats can turn into opportunities for the organization. 

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Internal audit can have a huge impact on enhancing business processes.

James E. Schulien

Agents of Improvement

In their quest for internal audit to contribute to business success, corporate leaders increasingly want auditors to help improve business processes. Deloitte's 2017 Ready for the Spotlight publication notes that CEOs, chief financial officers, and other business leaders "want advice on risks and risk management, and insights into business operations and processes."

Similarly, internal audit stakeholders say consulting on business process improvements is the top area where internal audit can provide advice, according to The IIA Research Foundation's 2016 Internal Audit Common Body of Knowledge Stakeholder Report. Internal audit can adopt several practices in approaching high-impact business process improvement projects.

SELECT THE RIGHT PROCESSES

Internal audit can start process improvement efforts by selecting the business areas where it can add value. As with many audit-related activities, a risk-based approach is the best way to select areas for improvement projects. This approach includes selecting processes that are critical for accomplishing the organization's strategy, selecting complex processes that cross functional lines, and selecting processes where there is a general consensus that there is a need for improvement.

To select operational processes that are critical to accomplishing the organization's strategy, internal audit should ask: Is this process critical to the business's mission? If this process is inefficient, does it matter to achieving the organization's

goals? If the answers to these questions are “no,” then spending time in this area is unlikely to drive significant benefits to the business, and management may not consider this type of project impactful.

Selecting complex processes that cross functional lines enables internal audit to assist with problems that are difficult for one function to resolve. Functions that are upstream may not realize they are doing things in a way

If a cross-functional effort is needed, internal audit can assist different departments in coming together.

that causes problems for functions that are downstream. Conversely, individual business functions are more able to self-assess and solve problems with processes that are performed within their area.

If a cross-functional effort is needed, internal audit can assist different departments in coming together to improve a process. Likewise, a complex process may be difficult for the process owner to analyze without assistance. Internal audit can assist a process owner in taking a fresh look at a complex process.

A consensus that a process needs improvement can assist in getting support for the project and the buy-in needed to motivate the function’s managers and team members to collaborate with internal audit to drive change. For example, at an aerospace manufacturer, there was a consensus that the procurement process needed improvement. Senior management could see excess inventories building and material purchase costs were exceeding budgets. However, there was no agreement about the cause of these issues. Additionally, because the procurement function was critical to achieving business

goals, the procurement process was a prime area for internal audit to perform an advisory project.

ENLIST AN EXECUTIVE SPONSOR

Even with consensus that a process needs improvement, project teams frequently encounter resistance to change from some process participants. These individuals often believe someone else needs to adjust—not them. Internal audit can help overcome this resistance by enlisting executive sponsors who are highly interested in seeing the process improved.

In the aerospace company, both the CEO and general counsel served as executive sponsors for internal audit’s procurement process improvement project. These executives played an informal role and did not participate in project meetings or the project process. However, their interest in the project and desire to improve the procurement process became invaluable in leveraging the project output to drive change.

STAFF THE PROJECT

Audit teams need to have the right skills to perform insightful business process analysis and complete improvement projects successfully. The team members must have strong business acumen and the ability to add value for the business process. Audit leaders should consider using just-in-time training to give the team members the most current knowledge possible of the subject area to be audited.

For complex and specialized areas, audit teams should bring in subject-matter specialists from within the organization or through service providers. For example, the aerospace company’s chief audit executive (CAE) used a combination of internal auditors with significant company experience and a contributor from a service provider who brought data analysis skills that the internal team did not possess.

Lowering costs and boosting customer satisfaction are the main drivers of business process improvement projects, according to The State of the BPM Market 2018.

Finding the right skills within the organization can save costs, but such employees must be independent of the area being reviewed. Just as independence is critical for assurance projects, it also is important for advisory projects to ensure specialists take a fresh look at the process.

ESTABLISH BENCHMARKS

Setting benchmarks for the area selected for improvement gives internal audit a measuring stick to use throughout the project. Questions to ask include:

- » What are the performance standards for the operations of this area?
- » What are the best practices for this function?
- » What are the key performance indicators?
- » How should the function measure success?

At the aerospace company, internal audit began its project by benchmarking its practices against other procurement functions. In addition, the auditors leveraged resources such as manufacturing forums and functional publications to identify improved practices for all significant procurement processes from requisitions, to soliciting bids, to certifying suppliers, to establishing master agreements, to creating purchase orders and rating suppliers.

IDENTIFY IMPROVEMENT OPPORTUNITIES

Performing gap analysis and process analysis enables internal audit to identify inefficiencies, non-value-added tasks, and other opportunities for improvement. In gap analysis, the objective is to identify the areas where there is a gap between the actual performance of the function and the benchmark. Gap analysis can be performed by gathering policies, key performance indicators, and interviews on practices

and then comparing the actual practices to the benchmark.

For process analysis, flowcharting is a good approach to identifying opportunities for improvements in process efficiency and control design. The goal is to not only have an efficient process, but also have efficient design and placement of controls. Often, organizations add controls as a process evolves. In these situations, the controls tend to be an afterthought and as a result, the controls are manual and occur at the back end of the process.

Throughout process analysis, internal audit should continually ask:

- » Has there been appropriate use of technology?
- » Have processes and controls that can be automated, been automated?
- » Can the process be streamlined?
- » Can controls be moved from the back end of the process to the front end?

The aerospace company's internal audit function found several opportunities to improve procurement processes. For example, it discovered that some purchase orders were being issued without final engineering specifications and negotiated firm prices. Additionally, the procurement function was not benefiting from the negotiated prices in the established master agreements and blanket purchase orders it had established.

TEST TRANSACTIONS

As with an assurance project, most process improvement projects should include tests of transactions and the effectiveness of controls. The difference with a process improvement project is that there is additional focus on assessing not just control effectiveness but also process effectiveness, cost, and efficiency.

Testing should include performing data analysis and collecting empirical support for all issues identified. These



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efforts should provide convincing statistical evidence to support the issues to be included in the project report. If internal audit cannot develop convincing statistical support for an identified issue, the team should ask whether the issue really is significant.

At the aerospace company, the purchase orders issued without firm prices and without final engineering specifications took on added significance when the team quantified how frequently this was occurring. The data analysis indicated that the problem involved a surprisingly high percentage of purchase orders.

UNDERSTAND ROOT CAUSES

For each issue, the internal audit project team should drill down past the surface problem to understand the root cause. Determining the root cause of an issue may require substantial analysis, involving considerable time and effort. In many cases, management already may be aware that an issue exists. The

Another contributing factor was the long lead time needed for suppliers to fabricate some parts being procured.

As a result of these and other root causes, the procurement function did not have the engineering details available to provide to the vendor and did not have sufficient information to negotiate a final price. The procurement function's buyers could not solve these root causes on their own. In fact, the buyers were frustrated by this problem. Procurement needed additional and more timely information from the customer. To obtain this information, procurement needed assistance from the sales and contracting functions, as well as business-unit leaders.

CREATE SOLUTIONS

Once the project team has identified the issues, the next step is to develop solutions. Some internal audit functions develop recommended solutions and present them to the process owner. A better practice in process improvement projects is to work with the process owner to gain buy-in and agreement with the root cause analysis and to build an action plan together to address the root causes.

The aerospace company's internal audit function worked closely with the procurement process owners to gain their agreement on the root causes and to jointly develop the solutions. For the issue that involved getting more timely engineering specifications from the customer, the action plan included enlisting the support of the other functions needed to solve this problem, such as sales, contracts, and business-unit leaders.

TELL THE STORY

The best approach to reporting on process improvement projects is to keep the report succinct while still telling the business story. As with any communication that auditors want executives to

The best approach to reporting on process improvement projects is to keep the report succinct while still telling the business story.

project adds value by providing a solution to the root cause.

At the aerospace company, internal audit analyzed why the procurement function was not providing engineering details and negotiating firm prices for so many purchase orders. The surface answer was that buyers were not performing their responsibilities appropriately. But the root cause was far more complex. The company's end customer was not providing sufficient engineering details for the final product timely.

The global business process improvement **market** is expected to **double** in size by 2025 from \$8 billion in 2017, according to Orbis Research's Global Business Process Management Market 2018-2025.

read, the business process improvement report should be concise.

In building the report, internal auditors should start with the most important issues first. If the report doesn't begin with the headlines, the reader may never get to its most important issues. Auditors should prioritize report issues using the lens that management uses—not a compliance or audit perspective. Another good practice is to provide a one-page executive summary. Using a PowerPoint format rather than a Word document may be more effective, depending on the audience.

Auditors should make the corrective action plan an integral part of the report so that they not only explain the root causes of the issue, but also provide the steps to resolve the issues. In many cases, auditors can structure the report so that the main focus and format is the corrective action plan. This approach also can help strengthen internal audit's reputation as a business partner.

The audit department at the aerospace company included a short executive summary at the front of its report about the procurement review, which highlighted the 10 most important issues and stated the planned corrective actions. The detailed report provided additional information about those issues and also included other issues that were important to communicate.

MANAGE THE MESSAGE

When internal audit is close to issuing a project report, it should have face-to-face meetings with the executive recipients of the report. No matter how well the report is written, this personal interaction can aid in making sure the message is communicated accurately. These meetings are an opportunity to build closer relationships with business leaders.

For the aerospace company's procurement project, the CAE held multiple discussions with the management of the procurement function and met with

the CEO and general counsel who had been the executive sponsors. The report and meetings helped these executives understand the project results and the significance of the issues. As a result, the CEO tasked the leader of the business unit and the procurement function with carrying out the action plan.

The business-unit leader was best placed to address the customer-related issues as well as other issues that needed

If the report doesn't begin with the headlines, the reader may never get to its most important issues.

executive support. The procurement leader and business-unit leader laid out a time line and worked together to carry out the action plan. The CEO asked the procurement leader to provide regular updates on the status of the corrective action plan. Both the CEO and general counsel participated in these status meetings and helped to keep a focus on making progress. Over time, the procurement function implemented the corrective actions, and the project led to substantive positive change in the company's procurement processes.

IMPROVEMENT ADVISORS

Internal audit's independence, process analysis skills, and knowledge of the organization's procedures and operations create the perfect mix of talents needed to provide high-quality process improvement services. Because the audit function is already intimately familiar with the business, it can get to the root causes quickly and offer advice that is tailored and specific. [la](#)

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Examples of governance breakdowns in public- and private-sector organizations are plentiful, from avoidable cyber breaches to scandals fed by toxic or misaligned cultures. Whatever the causes, problems in governance and risk management are invariably at the heart of many organizational failures. With such potentially dire circumstances, one would imagine that supporting and nurturing good governance would be the first priority of every member of the organization. However, there are plenty of examples where ignorance of sound governance practices—whether actual or willful—are to blame.

One of the root causes of Wells Fargo's fake account scandal was a decentralized governance structure that allowed its community bank leadership to shield the board from understanding the scope and significance of the problem. According to a report from the bank's board, the decentralized structure and the bank's culture also handicapped efforts to identify and address the problem.

At Equifax, whose 2017 cyber breaches exposed the personal data of nearly half of the U.S. population, the governance breakdown appears to be tied to poor oversight of IT controls. A June 2018 settlement between Equifax and eight states that brought suit against the credit-rating agency focused corrective action on a strict audit regimen of IT controls by internal audit and aggressive oversight by

A clear picture

Better explaining internal audit's role to stakeholders is vital to its success.

Gregory Grocholski

Illustration by Sean Yates



the board. The unstated message is that a lack of such assurance and oversight contributed to Equifax's epic breach.

Preventing what at times seems like an epidemic of high-profile governance failures would appear overwhelming. After all, what can one person or group of people do to stop it? The easy answer is to hope executive leadership and the board have developed strategies to strengthen governance practices and put in place sufficient internal controls to successfully identify and mitigate risks.

Ultimately, internal auditors must do their part. They must have

or CEO/general counsel relationship—one that is mutually trusting and mutually respectful, especially where each needs to do what is necessary in their respective roles. Lastly, the CAE needs to be in meetings with the CEO, CFO, and executive vice president to hear what's going on.

CONTROL THE MESSAGE

The principal challenge in getting internal audit's complex message to stakeholders is controlling the message, itself. Internal audit cannot allow others to define what it does. When control of the message is lost, misconceptions and misperceptions about internal audit creep in. Internal audit can best control the message through articulation and demonstration—what is said to stakeholders and what is done to earn their trust.

The message articulated to stakeholders must be clear and convincing. IIA President and CEO Richard Chambers provides a great example of that in his February 2018 blog post, "Internal Audit Advocacy: Actions Speak Louder Than Words." In the post, Chambers hones in on three key messages that internal auditors should promote to stakeholders:

- » When the internal audit function is effective, the organization is made stronger.
- » The IIA's *International Standards for the Professional Practice of Internal Auditing* provides the foundation for high-quality audits that help ensure complete, accurate, and reliable information is reported to the board.
- » Certified internal auditors demonstrate proficiency in the profession and are better equipped to deliver high-quality audits in accordance with the *Standards*.

Demonstrating what internal audit does and how it brings value to the

When control of the message is lost, misconceptions and misperceptions about internal audit creep in.

an innate understanding of their vital role in good governance and embrace that it is part of their job to zealously promote that role and the value internal audit provides the organization. Internal audit cannot afford to sit back and let others dictate its role based on a skewed or myopic view or, worse yet, on an agenda that doesn't put the organization's success first.

Internal auditors, especially chief audit executives (CAEs), must make it a priority to educate executive management, audit committees, or other governing bodies on the conditions where internal audit can thrive and provide high-quality assurance, advice, and insight. Heads of audit must invest in developing relationships with the CEO, chief financial officer (CFO), and board to become trusted advisors. The relationship the CAE has with the CEO/board must be the same as the CEO/CFO



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Just 52% of CAEs strongly agree that the audit committee will forcefully support them if there is a dispute with management, according to the 2018 North American Pulse of Internal Audit.

GETTING THE MESSAGE TO STAKEHOLDERS

Successful communication is key for chief audit executives (CAEs) to build strong and mutually beneficial relationships with their audit committees. That partnership can be achieved with a few simple guidelines.

Communicate the value. Ultimately, internal audit's product deliverable is not the work done on engagements. It is what is communicated to stakeholders about what those engagements found. Internal audit must make clear to stakeholders why its recommendations matter to the organization and how it will help protect it from risks or leverage risks to help it reach its goals.

Learn to listen. Listen to learn. Most people listen to respond. Internal auditors must listen to learn. Often, internal audit's best work can come from understanding what is said, but also from what is not being said.

Keep it short. Keep it simple. Executive management and boards/audit committees are constantly being pulled in multiple directions. Internal audit must respect this and provide concise and precise information to stakeholders.

Invest in building relationships. The challenge in building relationships is that work gets in the way. Heavy workloads for CAEs and frontline auditors can make it easy to put relationship building on a back burner. Make the time. Frontline auditors can schedule two or three hours a week to get to know department or division managers and the work they do. CAEs should meet regularly with audit committee chairs. Investing a few hours can pay dividends in the long run.

Commit to excellence. Convincing stakeholders of internal audit's value is tied to providing the highest quality service possible.

organization is up to the CAE, internal auditors, and audit committee. Striving to provide the best service possible means understanding the business, continually honing and expanding skills, examining efficiency and effectiveness, and conforming to the *Standards*.

But how do all these pieces come together for the benefit of the organization? Each has a part to play in communicating to stakeholders the importance of internal audit in supporting good governance practices.

THE CAE'S ROLE

The CAE is the face of internal audit for executive management and the board/audit committee. This individual serves as liaison, ambassador, and advocate for both the function and

the profession. It is imperative, therefore, for CAEs to develop stakeholder relationships built on trust and a deep understanding of internal audit's value to the organization.

This requires that internal audit deliver on its promises. CAEs must build teams that:

- » Understand the business.
- » Understand the company's strategy and value of key initiatives.
- » Are versed in the variety of risk areas, including cybersecurity and IT.
- » Embrace technology.
- » Constantly work to expand their knowledge and skills.

The CAE's integrity must be beyond reproach, and that integrity must carry through to each member of

the team. Building trust requires an unwavering commitment to independent and unbiased assessments of the organization's governance policies and internal controls.

CAEs also must be willing to speak truth to power. One of the core services that internal audit should provide is asking the hard questions and exposing faults others within the organization may be reluctant to address. With this as a foundation, the CAE can convince stakeholders of internal audit's value and educate them on what internal audit needs to operate at the highest levels.

THE PRACTITIONER'S ROLE

For individual auditors who make up the team, the role is relatively simple: They should deliver their best possible

HELP STAKEHOLDERS UNDERSTAND AND VALUE INTERNAL AUDIT

The IIA provides numerous tools to support chief audit executive communication with executive management, the audit committee, and the board. These tools, available on www.theiia.org and <https://global.theiia.org>, explore pressing issues facing organizations and provide foundational support for understanding internal audit and its role in good governance.

Tone at the Top This bimonthly newsletter provides boards, audit committees, and executives with information on issues such as risk, control, and governance. Each edition features a Quick Poll that offers insights on how others approach issues addressed in the previous edition.

Global Position Papers These articulate The IIA's positions and perspectives on vital governance and control

issues, from the value of conformance to the *International Standards for the Professional Practice of Internal Auditing* to internal audit's role in good governance. Their Key Takeaways and 5 Questions features are designed to quickly provide information and insights to busy executives and board members.

Global Advocacy Platform and Toolkit The Global Advocacy Platform offers practitioners and affiliate leaders several tools to advance their advocacy efforts, including an advocacy planning tool, stakeholder analysis tool, templates, presentations, fliers, brochures, and videos.

Global Perspectives and Insights This periodic publication offers insight and direction on key issues, with perspectives that resonate globally.

work with the highest levels of integrity, objectivity, and independent thinking, and invest in growing their skills. I often ask audit staff to put the pen down and tell me three key or strategic insights they have right now in the work that's in front of them. This is an easy question to answer for staff members

The audit committee must be converted into internal audit's ally and defend it with the same zeal as the CAE.

who invest in their talent development. CAEs must be able to trust that team members will deliver on the promises they make to stakeholders.

THE AUDIT COMMITTEE'S ROLE

The audit committee, in many ways, holds the keys to internal audit's success. As the principal contact between internal audit and the board, the audit committee must be converted into

internal audit's ally and defend it with the same zeal as the CAE. This must be real and true support. The audit committee that stands with its CAE is 100 times better than the audit committee that stands behind its CAE.

Obtaining support requires educating the audit committee about its obligations. The minimum requirements for the audit committee that CAEs must articulate at every opportunity include:

- » Understanding that its obligation to internal audit is as important as its obligation to external audit.
- » Remaining involved in the hiring, firing, review, and remuneration of the CAE. Turning over all but final approval of these steps to management creates the risk of demoting or diluting internal audit's role as a truly independent assurance provider.
- » Being open to communicating with the CAE without executive management present.
- » Demanding the highest quality internal audit function and being willing to resource the

75% of organizations that view their internal audit functions as “evolvers” say internal audit provides significant value, according to PricewaterhouseCoopers’ 2018 State of Internal Audit report.

function and guarantee its independence to get it.

These steps are crucial to getting the best internal audit function possible. As the relationship matures, the audit committee can become more than just internal audit’s ally. It can become its partner. Success comes when the CAE and audit committee stand together.

The biggest challenge, by far, is to make the case for internal audit to busy board and audit committee members. The IIA provides many tools to help educate and convert stakeholders to internal audit’s cause (see “Help Stakeholders Understand and Value Internal Audit” on page 62).

EVERYONE BENEFITS

Internal audit practitioners face a wide variety of challenges to provide


consistent and high-quality assurance and advisory service to their stakeholders. Laws, regulations, inadequate resources, competition from accounting

effective. This must begin with educating stakeholders on internal audit’s needs, its value to the organization, and the necessity for all the players in the

The biggest challenge is to make the case for internal audit to busy board and audit committee members.

firms, and lack of educational support resources can make getting the job done a Herculean task.

But as growing demands on stakeholders translate to growing demands on internal audit, it is imperative that the relationship between them be

governance process to see the benefits of a symbiotic relationship. 

GREGORY GROCHOLSKI, CIA, CISA, is vice president and CAE at SABIC in Riyadh, Saudi Arabia, and chairman of The IIA’s Global Advocacy Committee.

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Governance Perspectives

BY KAYLA FLANDERS

IN COMPLIANCE

Two U.S. government documents can help assess governance around compliance programs.

One of the biggest challenges facing organizations today is keeping up with the ever-changing regulatory environment. Companies are dealing with complex compliance requirements in every area of the world in which they operate. Some new requirements, such as the European Union's General Data Protection Regulation (GDPR), impact organizations regardless of whether they have a physical presence in the location where the law was enacted. Noncompliance with these regulatory requirements, whether it be involuntary or criminal, can create significant risks to an organization, including legal, reputation, and financial risks. Organizations must have strong governance around their compliance programs to ensure these risks are assessed and managed across the organization.

Internal audit can use their expertise in risk management and internal control

to effectively offer assurance as to whether the risks associated with compliance are being managed to an acceptable level. The audit can be scoped to evaluate the governance process as a first step, and third parties can be used when additional assurance on specific regulations is necessary.

There are frameworks internal audit can leverage to help ensure it assesses all of the key components of a well-governed compliance program. For example, Chapter 8, Part B, of the U.S. Sentencing Commission Guidelines Manual presents guidelines for an effective ethics and compliance program (see "7 Elements of an Effective Compliance and Ethics Program" on page 65). Although this framework is commonly used after an allegation of criminal misconduct has been made or adjudicated, it also can be used to ensure all of the elements of a robust compliance program are in place.

It can be overwhelming when internal audit begins analyzing a compliance program, given its overall complexity and the knowledge necessary to adequately audit all of the various regulations both in the home country and abroad, but this framework helps identify manageable components to be assessed. Management can begin by identifying all of the key compliance areas that affect the organization — environmental, data privacy, import/export, and anti-bribery/anti-corruption, just to name a few. Each key compliance area should have a designated individual with an appropriate level of authority and responsibility to oversee the compliance program. Using the framework, that person, or his or her delegates, can begin documenting how the organization would demonstrate a program that prevents or detects misconduct. A steering team of cross-functional leaders from legal, human

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TO COMMENT on this article,
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7 ELEMENTS OF AN EFFECTIVE COMPLIANCE AND ETHICS PROGRAM

The U.S. Sentencing Commission's seven elements of an effective program include:

1. The organization will establish standards and procedures to prevent and detect criminal conduct.
2. The organization's governing body should be knowledgeable of the ethics and compliance program. High-level employees within the organization should be responsible for program oversight, with day-to-day responsibility delegated to specific individuals.
3. The organization will exercise due diligence to ensure that delegation of authority is not granted to individuals who have previously engaged in illegal activity or other conduct inconsistent with an effective compliance and ethics program.
4. The organization will periodically communicate its ethics program, including standards and procedures, by conducting effective training programs, for employees and third parties, and otherwise disseminating information as appropriate.
5. The organization will take steps to ensure that the compliance program is followed, including monitoring. The program must be periodically evaluated to assess its effectiveness, considering both quantitative and qualitative evidence. In addition, a system must be established whereby employees, or third parties, may anonymously and confidentially voice concerns.
6. The program must be promoted and consistently enforced across all levels of the organization, including appropriate incentives to act in accordance with the program and disciplinary actions when noncompliance is identified.
7. When criminal conduct is identified, the organization must respond appropriately and take steps to prevent further similar misconduct, including adjusting the overall compliance program.

Source: U.S. Sentencing Commission, §8B2.1: Effective Compliance and Ethics Program, <http://bit.ly/2Ped56T>.


resources, compliance, risk management, internal audit, and other key areas can help identify common program elements, such as an overall code of conduct, investigation processes, and hotline management. Internal audit can play a key role in monitoring the overall compliance program and auditing specific risk areas.

In early 2017, the U.S. Department of Justice issued supplementary guidance titled *Evaluation of Corporate Programs* (<http://bit.ly/2Pec0ff>). This evaluation guide aligns with the federal sentencing guidelines and other referenced guidance and provides tactical questions that internal audit could use to evaluate the program. Two components, third-party and merger and acquisition risk, were added that should be considered when evaluating the effectiveness of the overall compliance program.

Third parties may be an integral part of organizational processes and considered part of the extended enterprise. The organization may have significant risk if those third parties, acting on behalf of the organization, commit an act of noncompliance. The third party may put the organization at a significant amount of reputation risk, and in certain instances, the organization may be liable for the actions of the third party. The evaluation guide indicates that certain actions must be taken such as due diligence, appropriate controls, management of the relationship, and appropriate consequences if noncompliance or misconduct is identified.

With mergers and acquisitions, management must ensure that a robust due diligence process is in place, and that the compliance function is integrated into the overall process to ensure that compliance risk is addressed. In the case of an acquisition, integration and transition of the compliance program to the new entity must be completed and any risks identified during due diligence addressed.

Overall, the framework and guide provide a solid base on which internal audit can ensure governance over compliance programs is effective. These documents should not be used as a checklist, as the elements may be present but a culture of compliance may not be developed, and the program becomes more form than substance. Internal audit should evaluate the adequacy of the evidence maintained in support of the program and ensure that the organization can demonstrate, both internally and externally, that the compliance program is robust. Both quantitative and qualitative factors should be evaluated. Soft controls evidence, such as how employees and leadership talk about the culture, also should be considered.

Although compliance can be a complex area to evaluate, these tools, along with third-party experts when needed, should enable internal audit to offer assurance around the effectiveness of the governance of compliance programs. 

KAYLA FLANDERS, CIA, CRMA, is senior audit manager at Pella Corp. in Pella, Iowa.



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BY J. MICHAEL JACKA

AN EXTRAORDINARY EXPERIENCE

Stakeholders should associate internal auditing with exceptional service.

Why the poor used car salesperson. Survey after survey shows these purveyors of the pre-owned work in one of the least trusted professions, mired in a cesspool of lobbyists, telemarketers, and (gasp!) business executives. There are many reasons for this distrust, but part of it has to be the frustrating ordeal of buying a used car.

Given the industry's reputation, and my own encounters with it, a recent auto dealership commercial caught me by surprise. It featured a customer so enamored with the used-car buying experience that he, purportedly, gave his endorsement without compensation. After extolling the virtues of the salesperson, the service department, and the dealership as a whole, he made an amazing statement: "I had an extraordinary buying experience."

Internal auditors are generally not included in surveys of "trusted professionals," but I imagine we would not appear particularly high or low on such a list. Our reputations have improved significantly over the years, though we are


still haunted by lingering perceptions of audit professionals as snitches, nitpickers, compliance tyrants, and even bayoneters of the wounded. These perceptions are dying a well-deserved, none-too-soon death. But they still drive some people's approaches and reactions to internal audit.

Accordingly, I think any of us would be shocked to hear someone say, "I had an extraordinary internal audit experience." But shouldn't we be trying for just that level of service? Shouldn't we be doing the extra work that would turn even our friends, supporters, and advocates into raving fans? Shouldn't we be trying to make every internal audit an extraordinary experience?

If so, we first have to figure out what an extraordinary audit experience looks like. And that means we have to identify and understand every step every stakeholder experiences in every internal audit project.

During the 1980s, Jan Carlzon, CEO of Scandinavian Airlines System, coined the phrase "moments of truth" to describe each and every time the customer comes into contact with

an organization or department. He described how these moments of truth represent the point in time when customers are forming their opinions. By focusing on these moments, he suggested, the organization or department could better manage them, thereby better managing customers' perceptions and creating a more positive experience.

For internal audit to deliver service our stakeholders will consider extraordinary, we must identify each and every one of these moments. We must determine why each is occurring, understand what the customer wants from that touch point, and develop ways to make each of those individual experiences the best they can be. If we manage those touch points—if we make each of those moments unforgettable—then, and only then, will our stakeholders walk away saying, "I just had an extraordinary internal audit experience." 

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READ MIKE JACKA'S BLOG visit InternalAuditor.org/mike-jacka

INTEGRATED KNOWLEDGE

Technology skills are assumed with today's internal audit practitioners.



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What are the advantages of having an integrated audit function?

SIMMONS Combining the knowledge, skills, and disciplines of financial, operational, and IT auditors on audit engagements allows for a holistic view of the business, risks, and controls, revealing the bigger picture of the control environment. It also enables two-fold efficiencies in auditing business functions and opining on the strength of the overall control environment—for the audit silo responsible for coverage, as well as for the customer who gains greater assurance from how IT is supporting its business controls and whether IT issues may be impacting its practices or regulatory conformance. It provides cross-skilling of resources with IT and business knowledge information. Finally, it enables internal audit to meet board expectations and provide the C-suite

with more comprehensive and connected audit universe coverage.

ANUNCIACION Having an integrated audit function has benefits for both internal audit and the first line of defense, depending on the organization. In a more tangible sense, an integrated audit function helps minimize testing fatigue—passing tests back and forth—which minimizes redundancies. Also, internal audit builds credibility with internal clients.

Why is it important for internal auditors to understand the impact of technology innovations on their organizations?

ANUNCIACION Internal audit exists to provide assurance to the organization. Since technology plays an increasingly large, fundamental role for companies, auditors must fully grasp what's involved and associated with it. Auditors must incorporate this into their

risk-based audit plan, as changes in technology can easily threaten companies. Today, audit should not be conducted at the speed of risk, but rather at the speed of innovation. Internal audit must keep up with the technology changes that impact the organization to provide assurance to stakeholders.

SIMMONS The pace of technology advancement is changing the way organizations invest in technologies to: gather and consolidate information; manage risk and regulatory pressures; and seek ways to be more efficient, agile, and insight driven. To maintain a competitive advantage, organizations must invest, yet more importantly they must understand the balance of opportunity vs. risk of doing so and how it could impact the risk landscape and ultimately change the control environment. Auditors can add value by not just flagging risks, but also by providing comfort that the risk is

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well-managed and worth taking. Therefore, auditors need to understand new and emerging technologies and discover innovative ways to engage the business to stay current and provide best-in-class assurance to the organization.

What technologies do internal auditors need to have a working knowledge of?

SIMMONS Several disruptive technologies are driving a new wave of processing and doing business, including artificial intelligence, machine learning, software robotics, blockchain, cryptocurrencies, semantic analysis, cloud computing, connected devices, and the Internet of Things. These technologies are being used to fight fraud, improve model and algorithmic trading, decipher unstructured data, and connect things previously unconnected. Internal auditors should be knowledgeable about these technologies to give assurance over them. In addition, auditors should understand how the underlying data is being created, consumed, and used; data is such an important element underpinning how business occurs, it cannot be overlooked. Audit functions should employ their own technology to support them with this, starting with basic to advanced data analytic tools to better analyze large data sets—for data driven audits—and reperform system outputs and interpret predictive analytic techniques used by the business. Lastly, in keeping internal audit innovative, it should consider intelligent automation and workflow automation technologies.

ANUNCIACION Internal auditors need to have a working knowledge of core transaction systems, as well as mission-critical systems, that impact what's being audited. Business intelligence and office productivity tools are just the start—specific industries require specific tools, as well. Ultimately, internal auditors need to be aware of the organization's technology roadmap—where they see themselves headed in terms of the technology used—and stay aware of the technologies that could be on the horizon.

How important is it to have team members with advanced technology skills?

ANUNCIACION It's increasingly important to have team members who not only know their way around technology, but also can push the organization forward. Chief audit executives (CAEs) must pursue a well-rounded team, with expertise in a full tech stack—infrastructure, security, building complex queries, analyzing large data sets, and more. Pursuing a team that is heavily invested in technology and accounting might be difficult, but it's invaluable in terms of strategically addressing operational risk for the entire company.

SIMMONS One of the top challenges facing CAEs is obtaining high-quality resources with the right skills to balance technology, business knowledge, and project management.

It is imperative in most industries to have a balance of IT auditors—application, infrastructure, data analysts/scientists—and financial auditors who understand the front-to-back functions and operations of the organization. Financial auditors are now expected to have basic general computer control skills and carry out testing of these, leaving the complex tech-related areas to be addressed by advanced tech auditors.


Why is it important to develop working relationships with IT professionals?

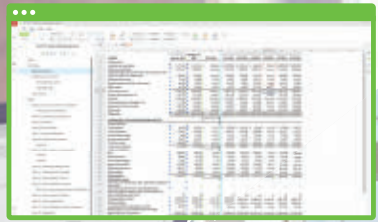
SIMMONS Technology is deeply ingrained in organizations' fundamental operations today. Data and processes typically don't exist without it. Having good and trusted working relationships with key technology professionals and the chief information officer (CIO) ensures auditors remain in touch with current, planned, and future work/projects and keeps them abreast of how the risk landscape is affected by run-the-business or change-the-business activities. This can be achieved through a strong continuous monitoring program, an effective audit work tool that derives meaningful data, and an audit methodology that is agile enough to anticipate or react to events/incidents/programs.

ANUNCIACION IT professionals and the CIO can help auditors get where they want to be. Auditors looking to modernize their processes and organization should not overlook relationship building with IT. After all, IT is the gatekeeper for all technology, supporting the business, helping achieve strategic objectives, and often holding the purse strings when it comes to purchasing new technology. Additionally, building rapport with the chief information security officer (CISO) is of paramount importance. Just like audit, the CIO's goal is constant vigilance and oversight of the organization's practices. CAEs should consider monthly meetings with their CISO to make sure all risks are acknowledged.

How can internal audit use technology to manage stakeholder relationships?

ANUNCIACION Simply put, technology allows for unparalleled collaboration among the organization and the three lines of defense. Internal audit also can use technology to provide foresight and hindsight—not only mitigating risk before it occurs, but also simplifying the audit reporting process across the board.

SIMMONS Technology that brings together business data, metrics, indicators, financial numbers, risk profiles, emerging risks, market trends, and insight in a connected way for an audit function demonstrates to stakeholders how well auditors understand their business, the market, and the expectations of regulators. The right technology is an enabler for auditors to drive the right conversations and be that trusted advisor. 



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Women in Internal Audit Leadership Forum

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OCT. 3-4

Environmental, Health & Safety Exchange

Renaissance Downtown
Washington, DC

OCT. 21

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Aria Resort & Casino
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OCT. 22-24

All Star Conference

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OCT. 24-25

Gaming & Hospitality Conference

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IIA TRAINING

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OCT. 1-19

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OCT. 2-3

COSO Enterprise Risk Management Certificate Program

Los Angeles

OCT. 2-4

IT General Controls

Online

OCT. 2-5

Various Courses

Chicago

OCT. 9-18

Fundamentals of IT Auditing

Online

OCT. 15-24

Performing an Effective Quality Assessment

Online

OCT. 16-18

Various Courses

Lake Mary, FL

OCT. 16-19

Various Courses

Washington, DC

OCT. 22-31

Operational Auditing: Influencing Positive Change

Online

OCT. 23-24

Beyond the Basics: Essential Skills and Practices

Anchorage, AK

OCT. 23-26

Tools & Techniques II: Lead Auditor

Atlanta

OCT. 23-26

Tools & Techniques III: Audit Manager

Charlotte, NC

OCT. 29-30

Succession Planning: Leveraging and Influencing Millennials and Other Generations

Online

OCT. 30-NOV. 2

Various Courses

San Antonio, TX

OCT. 31-NOV. 7

Critical Thinking in the Audit Process

Online

NOV. 5-30

CIA Learning System Comprehensive Instructor-led Course – Part 3

Online

NOV. 6-7

COSO Enterprise Risk Management Certificate Program

New York

NOV. 6-9

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NOV. 6-9

Various Courses

San Diego

NOV. 6-15

Audit Report Writing

Online

NOV. 6-15

Building a Sustainable Quality Program

Online

NOV. 7-16

Enterprise Risk Management: A Driver for Organizational Success

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BY ROBIN BROWN

DATA AT RISK

Protecting sensitive data should be a priority for every organization.

In the age of social media, cloud storage, and the Internet of Things, protecting one's data has become more and more difficult. Although these technologies create valuable conveniences in people's everyday lives, they also leave a digital footprint of our identities. With each click or swipe, we voluntarily expose our personally identifiable information and increase the risk of sensitive information loss, or worse, identify theft.

These same risks, of course, exist for the organizations we serve in the form of data theft, unauthorized access to systems, network attacks or intrusions, and misuse of services, information, or assets. Unfortunately, many organizations overlook these risks when performing IT assessments and remain complacent rather than taking proactive steps to protect their sensitive information. As such, internal auditors must ensure an incident management program exists as a portion of the organization's overall information security strategy.

Effective incident management assigns personnel responsibility; details and

defines requirements for identifying, investigating, and documenting an incident; and establishes escalation triggers and notification procedures. An incomplete process could hinder timely investigation into a potentially damaging incident and diminish an organization's resilience in the wake of a threat. Accordingly, internal auditors should verify that incident management policies clearly define who needs to be notified when an incident occurs, based on the incident classification and the affected business units and systems.

The methodology should also include procedures for the collection of data, prioritization of incidents by risk severity, and preservation of compromised systems. Insufficient or incomplete procedures in these areas could exclude critical forensic data and impact the organization's ability to recover quickly from an incident. Therefore, an effective incident management infrastructure should also follow industry standards for collection, preservation, analysis, and reporting of forensic evidence. Specifically, internal auditors should encourage organizations to

use products and services that meet legal rules of evidence, such as those validated by the U.S. National Institute of Standards and Technology, the CERT Coordination Center at Carnegie Mellon University's Software Engineering Institute, or the SANS Institute.

With more digital and technological vulnerabilities facing organizations than ever, internal auditors should ensure adequate security, privacy, and safeguards of customer and company data, while adapting to ever-changing advances in technology. As the world continues to become more interconnected in both our personal and professional lives, have we conditioned ourselves to accept that our data and personal information are no longer our own? Are internal auditors doing enough to adapt to this reality and protect ourselves and our organizations against the inherent vulnerabilities associated with the digital age? If not, now is the time to act. [la](#)

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