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EXCELLING IN CHALLENGING TIMES

I t's hard to believe we are already publishing the October issue of *Internal Auditor*—and still working from our homes. In this year of sudden disruption, I'm excited to share some positive news by continuing our annual tradition of presenting the up-and-coming stars of the internal audit profession. You can meet *Internal Auditor*'s 2020 Emerging Leaders beginning on page 26.

These leaders stand out because they have a passion for the profession, and they understand what it takes to advance their careers. This year, we take a deeper look into just what that is. In a package of articles, we consider the hiring process and the benefits of mentoring.

Successful internal auditors are intentional in their search for employment. They look for organizations in which they can grow and advance—that means choosing an organization that understands the importance of internal auditing. According to former Emerging Leaders Seth Peterson (2013) and Alex Rusate (2017), internal auditors should consider three areas: the prospective organization's culture, its governance structure, and how the audit function operates (e.g., does it conform to the *International Standards for the Professional Practice of Internal Auditing*?). Peterson and Rusate consider the hiring process from both the job candidate's and the hiring manager's perspectives in "Recruiting the Next Generation of Internal Auditors" (page 40).

Once on board at an organization, participating in mentorships is a great way for internal auditors to learn and grow. Many of this year's Emerging Leaders serve as mentors. "Mentoring is critical in the ever-changing environment of technology and internal audit," says 2020 Emerging Leader Michelle Brown. In fact, mentorships can be a win for both the employee and the employer. As Christine Janesko writes in "Mentorships That Work" (page 47), "Research shows that mentoring relationships can improve communication and leadership skills and help with employee retention and engagement."

In late 2019, The IIA's volunteer Emerging Leaders Task Force launched a successful pilot mentorship program for internal auditors. It paired 10 emerging professionals with 10 senior internal audit leaders from throughout the U.S. Nancy Haig, chair of The IIA's North American Board, participated as a mentor in the program. She shares her experience and the experience of others in "A Mentoring Program for Audit Professionals" on page 48. Many of the mentees who participated in the pilot are past Emerging Leaders.

Internal Auditor's Emerging Leaders, past and present, continue to impress and inspire us with all they are accomplishing. A big congratulations to the 2020 Emerging Leaders. We can't wait to see what you do next.

anne

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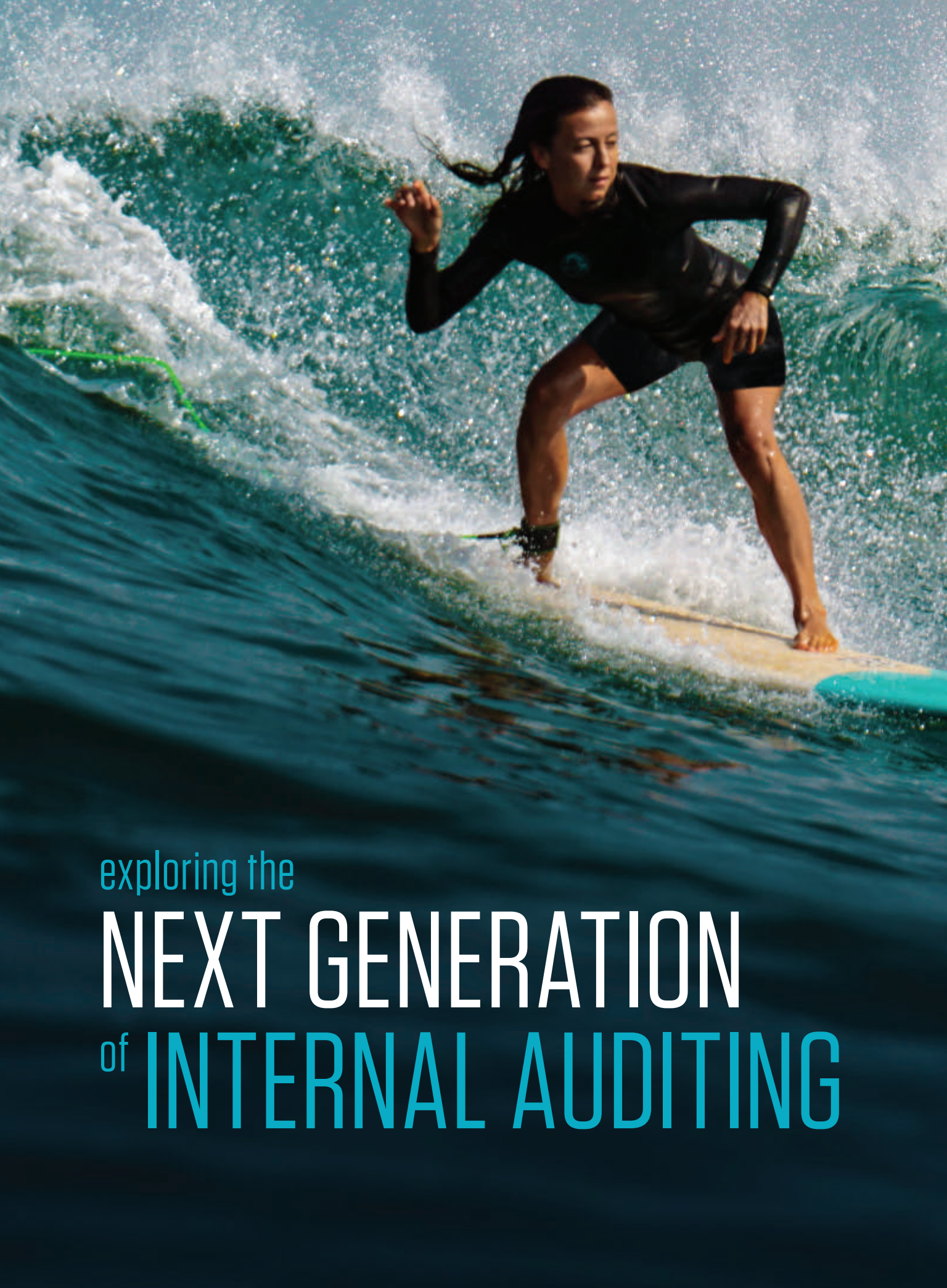
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Reader Forum

A Blended Approach Is Best

I always appreciate useful tips and advice on Agile auditing. I especially like the emphasis on being flexible in assignments and also the view that one should not slavishly follow all aspects of Agile to the letter if they don't work (e.g., the client is too busy for daily stand-up meetings).

However, with insights from Lean ways of working, there are some other considerations to bear in mind. First, who is the customer of an audit? It's often not the person you are auditing. Second, what do they value? Kaller states,

"Capturing the 'why' helps provide a consistent understanding of the purpose of the audit work." Yes, but sometimes different stakeholders have different agendas that need to be navigated (e.g., the audit committee wants an in-depth audit but management wants a high-level review and mostly advice). Third, the ability to add/stop work is important, but there is a deeper issue about how to do this without losing independence. If you are not careful, you may find it hard to justify what you have done if a regulator or quality assessment looks at the justification for less work. Fourth, the question of what *insight* is—an ability to do good root-cause analysis—is something that Lean offers.

The ability to be efficient around the creation of work programs is something not discussed, but Lean ways of working emphasize. In summary, I believe a blend of techniques is best and must be explicitly built into the audit methodology and reconciled with IIA standards.

J. PATERSON *comments on Amanprit Kaur Kaller's "Agile Auditing Simplified" (August 2020).*

Author Response: *This is a good comment that illustrates how applying Agile can be confusing for people. First, Agile was formed to support software development where the users of the output are more clearly defined. I agree that we need to flex the concepts to fit audit and think about what is more useful to ensure quality execution. Second, the "why" I was referring to was around helping auditors understand why they are performing testing. Why are they testing that control, what risk does it mitigate, or are there regulatory considerations or implications? Third, the ability to stop is supported through quality audit work and decision-making. Instead of spending time testing the whole sample, a decision can be made to focus on root-cause analysis. The Lean aspect of Agile is not about shortcuts, but efficiencies. Regular communication can facilitate more timely decisions on the most effective way forward. Lastly, I agree that root-cause analysis adds value. Team discussions also provide insight across the area being audited, which can help identify themes in findings or enable earlier discussions.*

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Update

COMPANY CULTURE DURING THE PANDEMIC

In a global study, more employees say company culture has improved during the pandemic than say it has deteriorated.

Say work is more purposeful:

| 43% | 77% |

Feel more loyal:

| 39% | 77% |

Feel more connected to co-workers:

| 32% | 76% |

Say organization is more supportive:

| 45% | 71% |

Say organization is more transparent:

| 34% | 62% |

■ Culture has deteriorated
■ Culture has improved

MINDSET FOR THE NEXT GENERATION

Survey finds internal audit needs to do more to build innovative capabilities.

Protiviti's latest Internal Audit Capabilities and Needs Survey underscores the importance of the profession embracing a next-generation mindset of innovation and transformation. To build and manage this mindset, internal audit needs to develop its competencies in governance, methodology, and enabling technologies.

The survey—which was conducted before the COVID-19 pandemic—finds that chief audit executives (CAEs) and internal audit teams have a lot of work to do. The 777 audit executives surveyed gave themselves low ratings for their competency in those three areas. In what Protiviti calls a "red flag for CAEs," self-assessments for competency with enabling technology such as artificial intelligence (AI), process mining, robotic process automation, and advanced analytics are some of the lowest in the survey.

Protiviti recommends prioritizing the three competencies, especially enabling technology. Next-generation auditing, processes, and tools—from strategic vision, agile auditing, and dynamic risk assessment, to AI, machine learning, and process mining—should receive greater attention from internal audit.

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While many internal audit functions see innovation as a core value, the study says fewer groups are undertaking some form of innovation or transformation compared with Protiviti's previous surveys. At the same time, the functions' capabilities have matured. However, the survey cautions audit groups that are not moving forward "to get moving—or risk falling too far behind."

The study says audit committees want CAEs to explain how their efforts are resulting in more risk coverage, and the more detailed information the committees receive, the more their interest increases. **— G. NORDHOFF**

SEEING TALENT AS AN ASSET

New white paper describes a framework for valuing human capital.

COVID-19 presents a watershed moment for valuing human capital, says a white paper published by the World Economic Forum in collaboration with Willis Towers Watson. The paper, Human Capital as an Asset, advises organizations to deploy a framework of principles-based tools and metrics to measure and account for human capital and to govern business performance.

A human capital accounting framework can enable an organization's board and management to track how its investment in people is augmenting its human capital, the paper notes. "As companies look to reset their business models, they need an approach to valuing talent not as an expense but as an asset," says co-author Ravin Jesuthasan, managing director at Willis Towers Watson, "so that boards and management can be held accountable for their investment in people and for delivering better outcomes."

The paper offers examples of human capital metrics, including models for understanding the employee experience, the total cost of work, and the return on work. It provides guidance tailored specifically to chief human resources officers, boards, and policymakers. **— L. NELSON**

CYBER SKILLS GAP WIDENS

Education is needed to build competencies as threats rise.

The global cybersecurity skills gap worsened for the fourth year in a row, even as threats become more advanced. The gap now has affected 70% of organizations, according to The Life and Times of Cybersecurity Professionals 2020, conducted by the Information Systems Security Association (ISSA) and independent analyst firm Enterprise Strategy Group (ESG).

The survey of 327 cybersecurity professionals reveals that there has not been significant progress made in narrowing the gap since such studies have been conducted. This gap leads to repercussions such as

22%
OF EMPLOYEES GLOBALLY FEEL PRESSURE TO COMPROMISE their organization's ethics standards or policies—or the law.

30%
OF TOP MANAGEMENT FEEL PRESSURE TO "BEND THE RULES" VERSUS
17%
OF NON-MANAGERS.

"By identifying employees who may be at a higher risk for feeling pressured to bend the rules, organizations can be proactive in addressing any possible issues before there is a problem," the Global Business Ethics Survey notes.

Source: Ethics and Compliance Initiative, Global Business Ethics Survey — Pressure in the Workplace: Possible Risk Factors and Those at Risk

increased workloads, unfilled job openings, and an inability for organizations to use cybersecurity technologies to their full potential.

ISSA and ESG say the only path forward is a holistic approach to cybersecurity education, with organizations making investments in developing and implementing globally accepted career development plans for cybersecurity staff. According to the data, 68% of respondents don't have a well-defined career path, despite the fact that 39% say it can take up to five years of hands-on experience to develop cybersecurity proficiency.

The study also indicates that businesses are not providing adequate training for their cybersecurity staffs. Thirty-six percent of respondents say their organizations should provide a bit more cybersecurity training, and 29% say it should provide significantly more training. Additionally, 64% say their organization should be doing more to address cybersecurity challenges.

"Key constituents are not looking at the profession strategically," says Jon Oltsik, senior principal analyst and fellow at ESG. "These disturbing trends should be of concern to corporate directors and business executives, particularly in light of the alarming findings this year that 67% of respondents believe that cyber-adversaries have a big advantage over cyber-defenders." —**L. WAMSLEY**

ERM IN UNCERTAIN TIMES

COSO Board member Patty Miller says the framework's principles can guide internal audit in addressing today's unexpected risks.

How can internal audit apply The Committee of Sponsoring Organizations of the Treadway Commission's (COSO's) *Enterprise Risk Management–Integrating With Strategy and Performance* in times of extreme uncertainty? The COSO ERM framework is principles-based and applies in good times and bad. The framework's five components contain 20 principles, which should be present and functioning to achieve success. A careful consideration of these principles can lead to insights on effective risk management activities that can minimize the ongoing impact of the uncertainty and enable better preparation for the next event.

For example, a Governance principle such as exercising board oversight can help determine if the role of the board is sufficient during great uncertainty. And Performance principles such as identifying, assessing, and prioritizing risks can help in assessing the effectiveness of contingency plans to support a quick response to – or even anticipation of – changes. The Information, Communication, and Reporting principles on communicating and reporting on risk, culture, and performance information can aid in determining how effectively key stakeholders have been kept informed, including employees, strategic partners, shareholders, regulators, customers, and suppliers.

THE LINE BETWEEN NEGATIVE TESTS AND RECOVERY

Employees returning to the office may not be fully recovered from a COVID-19 bout.

In the midst of the COVID-19 pandemic, there has been a blurring of what *recovery* from the virus actually means. Although a patient can be designated as "recovered" following a negative test for the virus, common symptoms such as chest heaviness, breathlessness, muscle pains, and fatigue can last weeks or even months, according to an article in *Nature Research*. These symptoms could prevent individuals from resuming work at their expected productivity.

"Some people, especially the young and healthy, might not see a need to follow preventive measures, because they expect only a few days of flu-like symptoms at the worst," says Nisreen Alwan, associate professor of public health at the University of Southampton.

Alwan recommends regular follow-ups for all patients who have experienced a positive test or highly probable COVID-19 symptoms. Return-to-work policies should account for this recovery time. —**L. WAMSLEY**

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Back to Basics

BY MAJA MILOSAVLJEVIC   EDITED BY JAMES ROTH + WADE CASSELS

HOW TO AUDIT FOR CONFLICTS OF INTEREST

Internal auditors can draw on several aspects when designing a plan for auditing this common risk.

Modern organizations generally recognize the risk of employees having interests that conflict with the interests of the organization, itself. These conflicts not only affect internal auditors—who are expected to follow The IIA's Code of Ethics and uphold the principles of integrity, objectivity, confidentiality, and competency—but all employees of the organization.

The challenge is that conflicts of interest can be difficult to identify, manage, and audit. Furthermore, there are various types of actual, potential, and perceived conflicts of interest. Some conflicts may involve an outside job or serving in another organization. Others may result from having personal and other types of relations with different stakeholders, which could influence decision-making.

In the course of business, conflicts of interest are likely to arise. This does not automatically mean that the organization and its employees are doing something wrong. The issues are whether the organization is mature enough to recognize these situations and has developed mechanisms to address them. Internal auditors should consider several aspects when designing their approach to conflict-of-interest audits.

Clear Guidance

Organizations need to define what constitutes a conflict of interest and communicate that such conflicts are not allowed. Organizations can do this by adopting an ethics policy, defining organizational values, establishing behavioral principles, or simply notifying employees. Although such actions might appear trivial, organizations are expected to inform their employees about what is appropriate behavior. Providing guidance on conflicts of interest and how to adequately communicate expectations to employees can be a good starting place for internal auditors to build their audit approach.

Organizational Setup

Businesses can organize duties related to managing conflicts of interest in different ways, as they can take various forms. In some organizations, the human resources (HR) department will take the lead. However, additional departments, such as the ethics, compliance, or legal functions, are commonly involved in managing conflicts of interest. This approach creates complexity, because it requires the organization to clearly define roles and responsibilities, maintain adequate segregation of duties, exchange relevant data and information, and collaborate across functions.

Preventive Controls

It is important for internal auditors to identify which
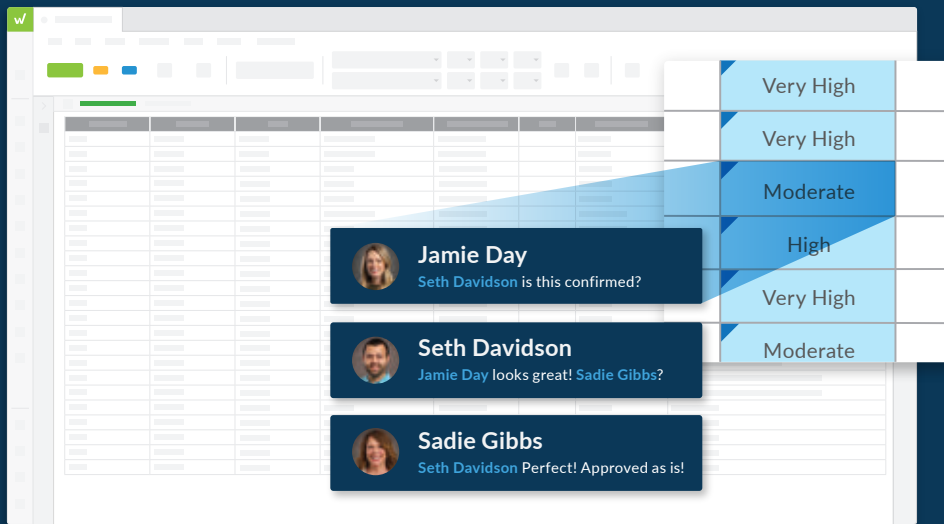
controls exist around conflicts of interest. Some generally applicable controls include:

» *Processes for obtaining information from potential new employees and business partners.* Organizations often ask new employees and business partners to provide information on any existing relationships with current employees. Such requests provide information before any relationship is established.

» "*Know your business partner*" *procedures.* Checking on business partners—their business, organizational, and ownership structure—can help identify conflict-of-interest risks.

» *Conflict-of-interest clauses in employment agreements.* Such clauses require employees to disclose their side activities with other companies.

» *Noncompete clauses.* These clauses in agreements and contracts should apply to employees, customers, business partners, and other stakeholders during the time they are associated with the organization or a specified time beyond that.

» *Conflict-of-interest management.* This process should include mechanisms, roles, and responsibilities for addressing reported or identified conflicts.

» *Prescribed response measures.* The organization would take these actions in case of a breach of conflict of interest-related agreements and clauses.

» *Gift register and policy.* A gift register should include both gifts given and received by employees. The gift policy should include an approval process for gifts of high value.

» *Conflict-of-interest reporting.* This process encourages employees to report conflict-of-interest relationships that may develop over time, including employees' relationships with other employees, managers, business partners, and stakeholders.

» *Outside employment approval.* Such a process requires employees to report and receive approval to have second jobs or freelance work.

» *Documentation.* The organization should have confidential, complete, and documented records on conflicts of interest.

» *Training.* The organization should train employees on conflicts of interest and how to deal with them.

» *Past lessons.* The organization should communicate and promote the lessons learned from past events.

Risk Acceptance

Organizations also should consider establishing a risk acceptance process to determine whether some conflicts of interest are acceptable. Some conflicts may be acceptable because

of lack of other alternatives, organizational issues, resource availability, and evolving relationships. In each case, the organization needs to assess if the risk is acceptable from a risk appetite point of view.

Highly sensitive and confidential risk acceptance topics could be dealt with by an organizational body. For example, the organization could establish a committee comprising experts from HR, ethics, compliance, legal, risk management, and internal audit, with other participants invited, when necessary. This committee's work should be communicated and applied throughout the organization, as well as documented.

Post-transaction Controls

Certain conflict-of-interest controls could be exercised to trace issues after business transactions have taken place. Such controls include:

» Tools and records for obtaining information on how the reported conflicts of interest were addressed.

» Documented background checks on employees.

» Documentation of design changes from previous controls.

» Effectiveness assessment of new, additional, changed, and compensating controls to mitigate conflict-of-interest risks.

» Documented follow-up of any compensating measures taken for cases of risk acceptance.

These controls could provide auditors insights on how conflicts of interest were identified, as well as the recognition and management process steps taken, outcomes achieved, and follow-up results.

A Corporate Culture Matter

Managing conflict-of-interest situations is not just a formal question, but rather an integral part of the much broader concept of corporate culture. An important aspect of auditing conflicts of interest will be the willingness of the organization's employees to recognize it and their ability to report it. This awareness requires an open, transparent, and trustworthy work environment. Internal auditors can contribute with the results of their audits.

Corporate behavior and decision-making related to conflict-of-interest issues send a strong message to employees about what is acceptable. Those messages are built into employees' perceptions and their execution of everyday business activities, which can result in significant consequences for organizations. **Ia**

MAJA MILOSAVLJEVIC, CIA, CRMA, *is an internal auditor in Vienna and a 2015* Internal Auditor *Emerging Leader.*

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BY JAMES BONE   EDITED BY STEVE MAR

AUDITING ARTIFICIAL INTELLIGENCE

Internal auditors can develop a framework for conducting AI engagements, despite a lack of standards and guidance.

The development of artificial intelligence (AI) has become a national strategic imperative for countries as diverse as Canada, China, France, Russia, the U.K., and the U.S. Likewise, the global AI software market is expected to expand from approximately $10 billion in 2019 to $125 billion by 2025, according to technology research firm Omdia|Tractica. As AI grows in importance and use, internal audit's role must evolve in lockstep with the technology to address a variety of new challenges.

One of the biggest challenges is that standards development is in the early stages, leaving internal auditors with little guidance on how to audit the output of AI decisions. Organizations such as the American National Standards Institute, U.S. National Institute of Standards and Technology, and the U.K. Information Commissioner's Office have begun developing AI frameworks and standards. However, this process will take time as different standard-setters focus on specific areas such as data privacy, ethical use, and the technical design of AI systems. Because internal audit functions will need to develop their own frameworks for auditing AI systems, they should prepare by getting up to speed on the various standards development initiatives.

Overseeing New Risks

AI has become a buzzword used to describe even simple automation, but the differences between the two technologies are important to understand. Each level of automation plays a valuable role but has different uses. The lowest level of automation, robotic process automation, follows strict rules and when programmed correctly executes repetitive processes such as automating accounting workflows, collecting data, and automatically transferring information.

AI has come into the picture as organizations have begun to combine one or more levels of intelligent automation to achieve higher performance and operational efficiency. AI may become the most disruptive technological development to date, creating new opportunities and risks in every aspect of business and life.

A U.S. Department of Homeland Security white paper, AI: Using Standards to Mitigate Risks, discusses the key risks to national security and intellectual property in using AI systems. In addition, some accounting professionals have advocated for formal redress of the risks and ethical standards, including algorithmic bias, data management, and privacy issues in audits, according to the *Pennsylvania CPA Journal*.

AI will require new oversight models such as

human–machine collaboration in decision-making processes typically reserved for management. These models will need clear ground rules of engagement between audit and management. At the same time, AI gives internal audit opportunities to provide assurance and to advise business leaders on the safe implementation and use of AI systems.

Engagement Planning Considerations

There should not be a one-size-fits-all audit framework for AI, nor should any standard remain static given the rapid pace of change in technology. However, there are common elements internal audit should consider when preparing for an AI engagement. Developing an AI audit framework can capture key areas of focus, including:

- » AI ethics and governance models.
- » Formal standards and procedures for implementing AI engagements.
- » Data and model management, governance, and privacy.
- » Human–machine integration, interactions, decision support, and outcome.
- » Third-party AI vendor management.
- » Cybersecurity vulnerability, risk management, and business continuity.

Subjective risk assessments will be insufficient in an AI world where the risks may be exponential.

Until professional audit standards and procedures are developed, each of these elements of the AI "ecosystem" should be considered in the risk assessment phase of audit planning. In establishing a risk-based audit plan, internal audit may need to reexamine risks across the organization as a result of implementing AI.

AI represents a novel risk, meaning internal auditors may not have historical observations or risk data from which to draw inferences on the scope of risk. Auditors should consider risk assessments of each of the six elements in the context of how AI will be applied.

AI has already been applied in diverse industries, each with its own inherent risks. The integration of human–machine interactions where AI decisions are relied on or used in conjunction with human actors represents dynamic risks requiring higher levels of attention. The Boeing 737 MAX

airplane involved in high-profile disasters, such as the Lion Air crash in Indonesia in 2018 and the Ethiopian Air crash in 2019, is one example where overreliance on AI and an underestimation of risks can result in catastrophic failure. This can happen even in industries with more experience with the technology such as aerospace, where AI has been used to assist pilot performance.

Internal audit should work with senior executives and the board to establish ethical standards and governance models for using AI. The technology will require clarity on data privacy, data governance, vendor management, human resources, compliance, cybersecurity, and risk management functions and policy.

The organization may need cross-functional teams of oversight and business leaders to establish new operating models from which audit assurance can be formally established for each impacted area. Organizations will need a process for analyzing and choosing among the options presented by AI. For example, if a hospital uses AI for patient diagnosis, doctors and nurses will need to interpret its analysis and determine its accuracy for patient care. Subjective risk assessments will be insufficient in an AI world where the risks may be exponential in reputational damage and threaten the organization's survival.

Getting Started

The AI ecosystem framework is an informal checklist for thinking about audit's role and structure for supporting AI projects or planning for an engagement of intelligent systems. No two AI projects are exactly alike, and all organizations are learning as they go, so internal auditors shouldn't worry about experience at this point.

AI is not a traditional engagement, but many existing IT standards cover the basics. Several countries are in the early stages of developing guidance that leverages existing standards and builds new standards to provide consistency in assurance.

Unfortunately, factors related to corporate culture and intended uses of AI will require engagement at the enterprise level to build a sustainable audit practice. Yet, even if more formal guidance and standards take time to develop, this is an exciting time for internal audit to play a leadership role in providing assurance for AI. Ia

JAMES BONE *is lecturer in discipline enterprise risk management at Columbia University in New York and president of Global Compliance Associates in Lincoln, R.I.*

Risk Watch

BY BRIAN CHRISTENSEN   EDITED BY RICK WRIGHT

ADAPTING TO THE DYNAMIC RISK ENVIRONMENT

Internal audit needs to move beyond analog processes to assess risks in a digital world.

COVID-19 has disrupted business operations worldwide. Offices sit empty as many employees continue to work remotely. Considering the fact that many organizations may offer remote working as a permanent option for some employees, business won't return to the old normal anytime soon, if ever.

During these unprecedented times, internal audit also faces challenges to modernize practices, processes, and methodologies amid today's digital age. As organizations continue to adjust their business models and operations with a digital mindset, internal audit must innovate and transform itself into an agile, multiskilled, and technology-enabled function. It must become a "next-generation" function that can recognize emerging risks and changes to the organization's risk profile quickly and efficiently, and incorporate them into the audit plan timely. This requires a dynamic risk assessment process.

From Static to Dynamic

The risk management methodologies most organizations have in place today were developed before the turn of the century. In effect, risk management is frequently an analog approach being applied in what is now a digital world.

Organizations need to do more to embed deeper and more insightful risk information in strategy-setting, performance management, and decision-making processes. Twenty-first century advances of digital, cloud, mobile, and visualization technologies; exponential growth in computing power; and advanced analytics can help elevate organizations' risk management capabilities.

Internal audit can be part of the change by transitioning to a dynamic risk assessment model that enables the department to respond to risks quickly as they change. Next-generation internal audit functions have moved beyond annual or quarterly risk updates to obtain a real-time view of changes to risk and their impact on the organization, as well as the effect on the assurance needed from internal audit.

A dynamic risk assessment approach enables organizations to:

- Identify changing risk trends in real time.
- Reprioritize coverage of risk as changing risk trends are identified.
- Develop an ongoing and common view of risk and the integrated assurance map across the Three Lines Model.

The dynamic risk assessment process must be agile, integrated, and aligned. From an integration standpoint, the risk assessment must closely align with other internal audit processes, leveraging Agile auditing and continuous monitoring practices. In

addition, the view of risk across the Three Lines Model must be consistent and aligned to measure and monitor the achievement of the organization's objectives. Aligned assurance is the correlation of risk, controls, and a broader view of the control environment across the Three Lines Model. Facilitating governance and management of risk within an organization's risk appetite, aligned assurance seeks to maximize operating efficiency and provide clearer visibility of results to stakeholders.

This alignment relies on an Agile audit approach in which enterprise risk management and internal audit are aligned. Agile auditing uses a framework that is based on iterative and sustainable development, where requirements and solutions evolve through collaboration among cross-functional audit teams focused on quality. Internal audit and its stakeholders are focused on a common goal of risk mitigation by responding to changing and emerging business needs and directions, while simultaneously working to meet business and regulatory commitments. In Agile auditing, if a dynamic risk assessment model does not have an impact on internal audit's assurance plan, the full potential of the model cannot be realized.

A Call to Action

Internal audit departments should adapt their risk assessment approach to more effectively quantify risk in a rapidly evolving business environment, in real time, and execute relevant assurance work to align with key organizational risks and priorities. Organizations and internal auditors must not only consider urgent matters requiring attention now, but also determine what is coming next and what may happen eventually.

Now The disruptions created by the pandemic are particularly challenging for internal auditors performing risk assessments. Auditors are illustrating the strengths of Agile and targeted risk assessments in an unanticipated and fluid environment.

Auditors have the task of uncovering immediate risks associated with the changes wrought by COVID-19. These threats span the breadth of organizations and include risks related to keeping systems secure while employees are working from home, employees' mental health and well-being, and meeting compliance obligations in a distributed environment.

Using targeted risk assessments to identify threats during a crisis can deliver more meaningful and valuable results to stakeholders. They can set the stage for discussions about regulatory changes or compliance, as well as emerging or heightened risks, and immediate actions to address them.

Next To build a dynamic risk assessment, internal auditors can use flexible risk assessments to continuously monitor the organization's operations and identify matters requiring attention. This practice allows internal audit to more quickly and accurately determine where organizations should focus attention and resources to improve processes, address risks, make corrections, and launch goal-achieving initiatives.

Technology is pivotal in effective continuous monitoring. Organizations increasingly are adopting innovations to move toward a continuous monitoring approach, which can help pave the path for a dynamic risk assessment.

Many organizations are leveraging advanced data analytics to allow internal auditors to more effectively map out action plans; make better inquiries into the various owners of risks and processes; and improve how, when, and where audits are conducted. During the pandemic, internal audit functions have used such data to inform and test the value of key risk indicators and then recalibrate these indicators to better align with available data.

Process mining is becoming a key differentiator for internal audit programs, particularly in a work-from-home environment. Process-mining technology provides auditors with critical insight into how systems and processes are operating in these situations and identifies where deviations may be occurring. The data tells auditors what is actually happening and supports dynamic risk assessment activities by identifying hot spots, driving audit focus.

Eventually At some point, the crisis will end and a rebuilding phase will begin. As workers transition to a more familiar routine, internal auditors can use dynamic risk assessments to prepare relevant audit plans and ensure organizations remain responsive to the risks facing day-to-day operations. Internal audit also can enhance the success or repositioning of project delivery, an area impacted heavily by the pandemic. Most importantly, the audit plan needs to provide executives with confidence that internal audit can accurately assess the organization's financial sustainability and any underlying risk.

The Change Imperative

In today's rapidly changing world, every organization faces the same reality — improve continuously or be left behind. Internal audit is no exception.

Chief audit executives (CAEs) need to respond to the emerging needs and new strategies of management and the board. When doing this, they must ensure the information they are communicating is timely and relevant.

Many CAEs have amassed goodwill by demonstrating internal audit's value in response to COVID-19. They can enhance their standing further by adopting next-generation audit practices that include dynamic risk assessments. Ia

BRIAN CHRISTENSEN, CPA, *is executive vice president, Global Internal Audit, at Protiviti in Phoenix.*

Fraud Findings

BY ANNA KON   EDITED BY BRYANT RICHARDS

BILLED AROUND THE CLOCK

Internal audit's warning of the potential for overbilling was ignored, allowing millions of dollars in hourly fees to go unchecked.

Two years ago, Future Energy Corp. (FEC), based in Finland, decided there was a need for flexibility and cost-cutting, so it changed its payment for services from a fixed fee to an hourly fee and implemented an IT system to track hours. Future Power, a subsidiary of FEC, relied heavily on BX Solutions OY, a subsidiary of BX Ltd., to maintain and repair its production equipment. After FEC conducted an annual risk assessment of its subsidiaries, internal audit decided to schedule a review of the equipment maintenance and repair process.

The audit revealed Future Power's high dependency on BX Solutions OY and a lack of competition in the region. The audit report also outlined the potential risk for overbilling fraud because of insufficient verification of hours reported by BX Solutions OY personnel. The subsidiary was renting office space for its personnel on the premises of Future Power, so logs from entrance systems did not provide any insight on whether its employees were working on Future Power equipment or doing other tasks. The audit team concluded that the risk of overbilling existed, but no proof could be provided. Future Power management chose to accept the risk and stated additional controls were not needed. Internal auditors insisted they were and escalated the issue to FEC's board of directors. Finally, as a compromise, Future Power management allocated one employee to conduct independent checks of hours reported by BX Solutions OY.

One year later, Future Power's CEO emailed FEC's audit manager, Alicia Cohen, after he received a letter from BX Ltd.: "I am forwarding to you a weird letter from our main maintenance and repair partner, BX Ltd. I told them you will handle it from here."

Cohen could barely believe what she read in the forwarded letter. BX Ltd. reported that its local subsidiary was defrauding FEC: "Due to a mistake and misbehavior, working hours have been overbilled since our last contract renewal. Corrective action has been taken and a credit for €2.3 million ($2.7 million) will be issued to you immediately. We suggest a regular review to ensure a robust hourly recording process moving forward."

The audit team felt vindicated. The potential fraud risk scheme they described to management a year before was realized. The team set out to investigate how the overbilling happened.

Initially, BX Ltd. willingly cooperated. Via web-based meetings, BX Ltd.'s compliance representative, Pierre Brodeur, explained that its investigation was triggered by an anonymous whistleblower complaint from BX Solutions OY. The

LESSONS LEARNED

» When it comes to the purchasing of services per hour—lawyers, IT developers, consultants—how often are organizations overbilled? How can an organization find the right balance of trust and control? Organizations risk playing a "catch me if you can game" with contractors unless the environment encourages fair reporting of spent hours. Internal audit's role is to review the process of hour validation and determine whether hours can be verified, at least to a reasonable extent.

» Operational-level management is usually overwhelmed with important daily issues, so it is difficult to get managers to take an interest in a potential fraud risk. When they read an internal audit report that raises a red flag about something that has not happened—but might—they might not care nor understand the seriousness of the risk. Rather than point out lack of caring, internal auditors should suggest additional controls or work toward reaching a compromise that satisfies both parties.

» Collaboration with a contractor that acknowledges fraud is unlikely to happen often—if at all. If the contractor has already made up its mind about how much it is going to reimburse, any collaboration promises are likely to be empty declarations. Also, internal audit should keep in mind that there is likely a specific reason why a contractor wants to acknowledge fraud. The best-case scenario is that the contractor is embarrassed of its findings and wants to avoid bad publicity. The worst case is that it is trying to cover up something much bigger and wants to voluntarily return a small part of what was stolen from the company to avoid litigation and prosecution.

» When circumstances require internal audit to collaborate with outside parties where conditions or other information is exchanged, it should include legal counsel to avoid any unwanted damage to the company, such as disclosure of confidential information. It's important for internal audit to know when to step back as a trusted partner.

investigation revealed that remuneration for BX Solutions OY management depended on the profitability of Future Power's maintenance and repair contract, as it was its biggest and most important client in the region. The change from fixed pricing to an hourly based system caused BX Solutions OY management to become concerned about profitability levels, so employees were instructed to bill Future Power for as many hours as possible. After the conclusion of the internal investigation, BX Solutions OY management and the employees who participated in the scheme were fired.

Brodeur handed over internal time sheets of BX Solutions OY employees involved in maintenance and repair activities. FEC's internal auditors compared the time sheets against billed hours, determined the number of overbilled hours, and multiplied the difference by the hourly rate to calculate the value of the hours. When FEC's investigative team reported an amount two times higher than the €2.3 million, cooperation between the parties ended. BX Solutions OY misled BX Ltd.'s compliance team, claiming repairs were still priced at a fixed rate, so BX Ltd.'s compliance department calculated overbilled hours for maintenance services and disregarded hours spent on repairs. FEC's internal auditors, however, reviewed repair contract terms with legal counsel and concluded that repairs had to be billed on an hourly basis, as well.

The internal controls assessment did not take long. Internal audit tried to reconcile time sheets of BX Solutions OY personnel with hours recorded in the system, but there were no names or employee identification numbers. Moreover, BX Solutions OY personnel could record their hours monthly rather than on an ongoing basis. As a result, Future Power supervisors issued and accepted work orders without knowing how many people were on site on any specific day.

An analysis of work orders for the previous two years found that more than 40% of annual maintenance expenses were for regularly conducted visual inspections of equipment. It was impossible to determine whether inspections were actually carried out because there was no paper trail.

Though Future Power appointed an employee to conduct independent checks of hours reported by BX Solutions OY the year before, management never touched base with the employee to determine whether he had suitable tools to conduct those checks. The employee was overloaded with other duties and preferred to keep a low profile without interfering, controlling, or suggesting improvements.

Future Power eventually received €2.3 million from BX Ltd. and filed a legal dispute for additional amounts owed. Ia

ANNA KON, CIA, CRMA, CFE, *is a head of internal audit in Tallinn, Estonia.*
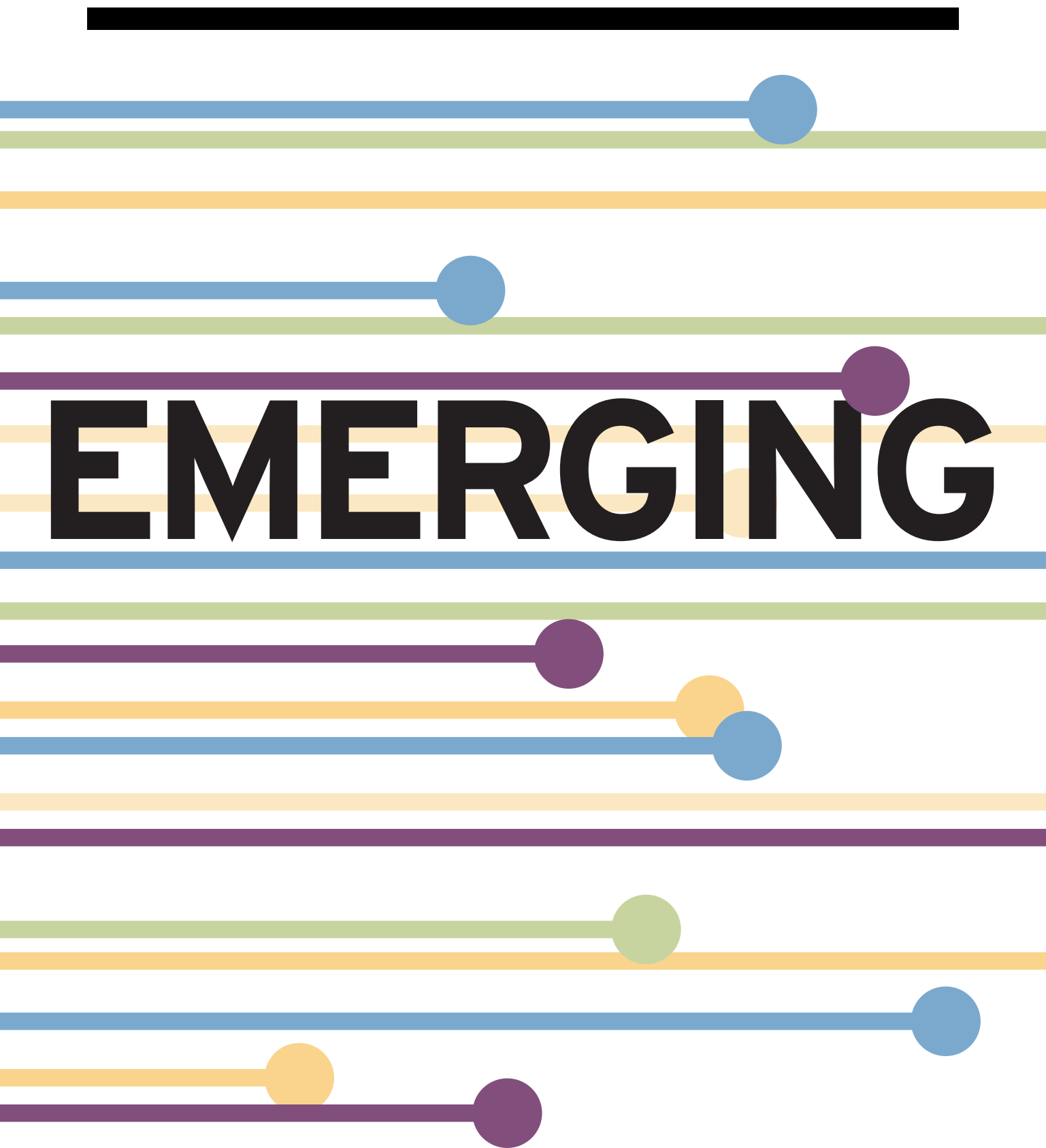
EMERGING

This year's honorees are redefining what it means to be tech savvy, agile, and well-rounded in today's profession.

LEADERS

2020

Russell A. Jackson

nternal auditors' trusted advisor status is no longer an aspiration — it's assumed. While bemoaning that some still view practitioners as adversaries or box-checkers, this year's Emerging Leaders extol internal audit's access to all levels of an organization and its role in strategic planning. Even at relatively early stages in their careers, they're already earning seats at the proverbial table. And those seats are earned based on both their mastery of internal audit processes and their ability to see the bigger picture. As a result, they report leading massive international engagements, jumping into complicated situations on short notice, and starting up audit functions at far-flung branches of their organizations. Adeptness with data is a given with this group. No longer is data analytics a sought-after specialty — this year's class fiddles with numbers for fun, and many write software suited to their department's specific needs. Service to the profession is assumed, too. This year's group chairs committees, produces fundraising events, and promotes The IIA to students and colleagues alike. And as with numerous practitioners, the path to internal auditing for many Emerging Leaders was a winding one; one reports planning for his audit career as early as his teens, but most came across it unexpectedly. Indeed, one Emerging Leader calls her introduction to the profession "completely serendipitous," and another learned what internal auditors do in her job interview. As always, their enthusiasm is infectious. They're fascinated with internal auditing's potential, and they want to maximize it and improve it. The profession is in good hands.

professional **development**

HASSAN NK KHAYAL
CIA
26
**SENIOR CONSULTANT,
RISK ADVISORY SERVICES**
MAZARS
ABU DHABI,
UNITED ARAB EMIRATES

HASSAN NK KHAYAL's journey in internal auditing began with undergraduate business administration coursework at the American University in Dubai. "It provided a unique self-awareness opportunity, as I discovered that I enjoyed getting to know about all aspects of business — including management, marketing, and advertising — through my elective coursework in addition to my accounting and finance major requirements," he explains. The internal audit courses, and one instructor in particular, he adds, intrigued him with the variety of work the profession offers. But the most direct influence was a close friend in internal auditing who felt sure he'd thrive in the profession. Now with six years' experience, he's often hand-picked by new clients, says Ghaleb Al Masri, managing director at Mazars. Khayal, who holds a certification in robotic process automation, has worked with clients in oil and gas, media, and wildlife and forest management. "He always manages to master the different industries and bring new educational opportunities from them," Al Masri notes. Khayal says he appreciates internal audit's relationships with all key stakeholders in the organization and its bird's-eye view; the diversity of assignments makes each day new and interesting, he adds. "An additional interesting aspect about working in consulting is that not only are the functions always different, but also the clients, and by extension the industries, making the job much more fulfilling, but also much more challenging," he says. Masri adds that Khayal possesses strong communication skills, noting that the junior-level professionals whom Khayal mentors usually show an above-average grasp of the profession and demonstrate superior job performance compared to their peers. Khayal is also active with his alma mater, mentoring and advising in its active business incubator system and volunteering at alumni events. And he enjoys being out in nature, he says, especially underwater on weekend scuba dives.

BONNIE TSE focuses on "solutioning," according to her supervisor, Stephen Whitman, senior manager, Internal Audit, at T-Mobile. "She continually strives to look at problems from different angles," he says, "improving and streamlining as she goes." One recent example: As vice president of Membership for IIA–Seattle, her solution to increasing the pipeline of future practitioners involved developing and launching a mentoring program, pairing IIA members with local university students interested in auditing. Tse earned accounting degrees from the University of Washington and the University of Southern California; since then, she's collected Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), Certified Public Accountant (CPA), and Project Management Professional credentials. She started as a business process consultant with a focus in internal audit and financial advisory; clients represented electric utilities, car insurance, and computer memory manufacturing. Tse now works in the internal audit department at T-Mobile, and she says she loves being able to learn about different areas of the business, seeking and helping to address process inefficiencies. "I see a lot of opportunities for auditors to leverage robotic process automation to reduce the number of low-level repetitive tasks, so

BONNIE TSE
CIA, CISA, CPA, PMP
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**INTERNAL AUDIT
MANAGER**
T-MOBILE
SEATTLE

they can focus on the more interesting and value-adding aspects such as solving the root cause of customer pain points and designing better preventive controls," she says. Indeed, Tse is often sought out for control advice and "pre-audit" testing, Whitman notes. She recently became a board member of the Washington Society of CPAs and has served on the Planning Committee for the organization's Women's Leadership Conference. When she's not working, Tse enjoys playing badminton, skiing, hiking, and traveling.

AMBER MORGAN
CIA
29
**MANAGEMENT
AUDITOR II**
CITY OF ANAHEIM
ANAHEIM, CALIF.

AMBER MORGAN had the wrong impression of internal auditing. The Chapman University graduate served as a summer intern at KMJ Corbin & Co., an accounting services firm that then offered her a job, giving her experience in financial statement audits for publicly traded companies and nonprofits in multiple industries. "There was a perception that internal audit is repetitive," she says now, "that you are in the same company doing the same audit over and over, year after year." But in reality, Morgan says, her experience has been anything but boring, noting that she has yet to perform the same audit twice. After KMJ, she moved to local government internal auditing, obtaining experience in public safety, contracts and procurement, finance, and public utilities. "She does not consider her work just a job," says colleague Lisa Monteiro, senior management auditor for the City of Anaheim. "She has a genuine interest in the overall betterment of the local government auditing field." Even an average day is interesting when your audit clients include Disneyland, Angels Stadium, and the Honda Center arena — not to mention public utilities and police and fire services. Morgan worked on an audit of 911 dispatcher staffing levels for the Anaheim Police Department's Communication Center. "During the audit, I had the privilege of doing a 'sit-along' for several hours to gain a real-life understanding of their job duties," she recounts. "It was one of the most eye-opening experiences I have had." Additionally, noting her department's continued use of paper reports in manila folders, and lack of plans to implement a change, she took the initiative to lead the switch to audit software, set it up for the department, and train the auditors on how to use it. "She also spearheaded the division's transition from audit reports that were traditionally word-heavy and long to a modern report format that is attention-grabbing and much more visually appealing for the reader," Monteiro adds. After hours, Morgan and her family soak up the Southern California sun, hiking, going to the beach, and walking their dog. She also volunteers for the Association of Local Government Auditors and Dedicated Employees Volunteering Time & Energy (DEVOTE), a charitable group for employees of the City of Anaheim.

An internship in a bank's internal audit department proved pivotal for **MICHAEL ZUMBANO**. While he was pursuing a degree in finance at The Pennsylvania State University, the 10-week experience sparked his interest in auditing. Now five years in, he says his early years at his current company proved transformative. "Working on different teams has really helped shape who I am today and how I practice audit," Zumbano says. On the banking company's automation team, for example, he helped develop SQL code to drive continuous controls testing of full populations and to provide actual reperformance of system logic rather than reviewing business results, developing his data analytic skills. Now on Bank of America's Data Quality Audit team, he helps assess how data is being managed across different functions. He explains: "I've developed a true passion for data, and feel fortunate to apply it to help drive a stronger control environment." Manager Jason Nark, audit director at Bank of America, says Zumbano "represents the future of audit, transforming his skill set to become an expert in data and data controls." He identifies meaningful data-driven insights, Nark adds, and can communicate them effectively at an executive level. "He stands out for his ability to quickly understand businesses and processes and the underlying systems and data, a combination of skills that enables deeper understanding of how to look at data, what it means, and how to find issues that help businesses improve operations," Nark says. One example: Zumbano determined while testing data for reporting that the data was changing during a conversion process intended to simplify report production; he then identified a pattern that pinpointed the remediation needed for sustainable accuracy. In his downtime, Zumbano mentors kids through the Boys & Girls Clubs of America and the Communities in Schools of Delaware program, and he's active with the bank's annual golf outings that benefit Make-A-Wish. Zumbano plays golf and soccer, and he notes a strong interest in cooking "developed through years of watching the Food Network."

MICHAEL ZUMBANO
CIA
26
**ASSISTANT VICE
PRESIDENT;
AUDIT SUPERVISOR,
CORPORATE AUDIT**
BANK OF AMERICA
WILMINGTON, DEL.

Mike Zumbano — we're proud of you!

Congratulations to our Bank of America teammate

Mike Zumbano for being recognized as a

2020 IIA Emerging Leader

BANK OF AMERICA

KYRA LI
CIA, PMP
30
DIRECTOR, RISK CONSULTING
ONTARIO LOTTERY & GAMING
ONTARIO, CANADA

KYRA LI embodies the trusted advisor role many internal auditors have begun to embrace. Self-described as risk-averse, the University of Waterloo graduate says she took the first job offer she got. "Admittedly, I was not 100% sure what I was getting into," she comments now, "and it took a few months before it clicked that I was an auditor." With an enhanced understanding of the foundations of risk, she moved into an internal audit role with a rapidly growing professional services firm, enabling her to see further connections among internal audit, enterprise risk management, and business resilience. Now she leads a risk consulting team, which she says functions in an internal audit capacity but with an emphasis on advisory work. Former colleague Alan Cosgrave, a partner in Enterprise Risk Services at MNP LLP, says an attribute of Li's that he misses most is "her ability to see the bigger picture with respect to risk when she is conducting her work." She helped grow the practice, he adds, attracting several of its large co-sourced and outsourced internal audit arrangements. "Clients constantly commented on her ability to understand the key issues and risks and her ability to pull that all together and create fit-for-purpose recommendations," he notes. Li says crafting co-sourced and outsourced arrangements is easier when you've been on both sides. "From a service provider perspective, having a single primary liaison at the organization can turn a potentially complex relationship into something seamless and valuable," she says. "From a client perspective, I understand how much more value can be obtained by being open with sharing information and brokering relationships." Outside her professional life, Li has coached Special Olympics swim teams and volunteered at independent living residences for adults with disabilities. To round out her downtime, she recently began taking wine classes, adding historical context to her empirical research.

DANIEL MEYO combines a big-picture approach gained from working in and outside the U.S. with a zeal for assessing the intricacies of an enterprise up close. At his alma mater, the University of Illinois at Urbana-Champaign, he took an accounting class focused on internal controls. "I realized that I really enjoyed the thought of taking on a role that would allow me to analyze how a business operates and addresses risk," he says. Meyo has in fact led many internal audit engagements around the world for very large companies, both public and private, says manager Warren Stippich, a partner at Grant Thornton LLP. Meyo has also been global manager for all 130 member firms in the company network's internal audit practice. During a one-year rotation in Sydney, "he brought his experience from the U.S. and the internal audit profession," Stippich says, "and shared it with his new teammates there and all over Australia and Southeast Asia." Meyo comments: "Work that is global in scope is both challenging and rewarding, requiring me to take the time to understand many different cultures and ways of thinking and to work collaboratively across the company globally to add value." He also trains and mentors new employees at his firm. In his home town, Meyo supports Chicago Cares, a nonprofit volunteer organization, plus Lurie's Children's Hospital fundraisers and IIA–Chicago's annual golf event. When he's not working, Meyo reports spending much of his time on the links. "I love that golf is as much a mental challenge as a physical challenge," he says. "It allows me to get outside and disconnect."

DANIEL MEYO
CIA
29
MANAGER, ADVISORY SERVICES-RISK
GRANT THORNTON LLP
CHICAGO

> " **I APPLAUD OUR 2020 EMERGING LEADERS FOR THEIR STRONG START OF A STELLAR CAREER AND, MORE IMPORTANTLY, THEIR SERVANT LEADERSHIP TO THE INTERNAL AUDIT PROFESSION AND COMMUNITY.** " –Beili Wong, Emerging Leaders judge

professional **development**

STEPHANIE ROBBERSON
CISA
29
IT SENIOR ASSOCIATE
STINNETT & ASSOCIATES
OKLAHOMA CITY

STEPHANIE ROBBERSON came to internal audit by way of anthropology. That was her major at Baylor University—she minored in art history and museum studies, planning a career as a museum curator. But a forensic anthropology field school shifted her sights toward an advanced degree in forensic science and plans to become a forensic examiner for law enforcement. "I did not know what internal audit was until I interviewed for my current position," she says. Finding no ideal jobs in Oklahoma City, she turned to a professor for advice who connected Robberson to her current manager. Now three years in, and pursuing CIA certification, she says, "I love that there is always something new to learn, especially in the IT realm." She boasts 3,000 hours of internal audit projects under her leadership, says manager Kari Zahar, senior manager at Stinnett & Associates. And she developed IT onboarding training for new hires that was originally developed for local use but was then adapted to other cities and used to feed firmwide training. Zahar says Robberson's colleagues call her "a rock star who's always got your back." To prepare for a project, she reviews literature on emerging technologies and interviews groups who are knowledgeable about a subject or process, she says, then reports on her findings. Zahar notes that Robberson is AccessData ACE-certified and a Cellebrite Certified Operator and Cellebrite Certified Physical Analyst, which involves using advanced techniques to explore recovered data, perform analysis, and produce reporting. Beyond her professional responsibilities, Robberson serves as membership chair on the Board of Directors for the Oklahoma City Museum of Art's Moderns group, and she volunteers with local animal rescue and adoption events. She also spends much of her free time exploring local museums, along with parks, breweries, and restaurants.

THOKOZANI SIHLANGU started planning a career in accountancy when he began secondary school at age 12. His course selection was "aligned to this dream," he recounts, ultimately leading to a degree in internal auditing followed by a postgraduate degree in forensic auditing. Sihlangu, a Nelson Mandela University graduate, joined IIA–South Africa during his third year of study and developed a passion for the profession. He founded an Internal Audit Students' Association to "bridge the gap between students and industry through knowledge transfer, networking, and active seeking of work opportunities for students," he says. Sihlangu's career includes a stint at First-Rand Bank, where he monitored conformance with The IIA's *International Standards for the Professional Practice of Internal Auditing* and provided quality assurance services to 300-plus auditors. At both his current position at Absa Bank and in his role as chair of IIA–South Africa, Johannesburg Region, he helps his organizations meet the unique challenges of working in the pandemic. "He introduced online conferences during the COVID-19 lockdowns that have become the new normal way of servicing members across the country," says former colleague Lerato Dihangwane, audit manager at Bidvest Bank. She adds that Sihlangu's role with Absa Bank also includes leveraging the use of cutting-edge technology to help address fraud risk. Sihlangu, who's pursuing both the CIA credential and an MBA degree, also introduced Internal Audit Awareness Month at his company. "It was well-received across the organization,

THOKOZANI SIHLANGU
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AUDIT MANAGER
ABSA BANK
JOHANNESBURG

among 220 internal auditors in 10 African countries, as well as by business management," Dihangwane reports. Sihlangu says his involvement with The IIA helps keep him abreast of developments in the profession and enables "insight and foresight to identify emerging risks and gaps that are not necessarily visible to others." He serves as chair of IIA–South Africa, Johannesburg Region, which has also helped expand his impact beyond the profession. "He participates in community outreach programs, including spending a day at an orphanage, where volunteers played board games with the kids and donated food and essential items," Dihangwane says. Outside the work-a-day world, Sihlangu enjoys travel, especially road trips, he says.

MICHELLE BROWN
CFE
26
AUDITOR II
NIELSEN
OLDSMAR, FLA.

MICHELLE BROWN believes in paying it forward. At a previous employer, she participated in the Beta Alpha Psi INSPIRE Mentor Program at the University of South Florida, her alma mater, helping students transition from academics to a business career by reviewing résumés and prepping them for career fairs and interviews. "Mentoring is critical in the ever-changing environment of technology and internal audit," she says. Before starting in the profession less than a year ago, Brown—who's working toward earning CIA and CISA credentials—pursued a sales career at Tech Data and ADP, then worked as an external auditor for EY Media & Entertainment. Brown's experience in big data and auditing from multiple perspectives makes her "a next-generation internal auditor," says supervisor Kevin Alvero, senior vice president, Internal Audit, at Nielsen. Her multidimensional background, he explains, "comes through in the level of comfort she has in communicating with the various stakeholders of the audit projects she manages." Brown adds that, to improve efficiency, the internal audit team "works cohesively" with other teams at Nielsen. As an example, she cites the impact of her Audio Internal Audit team's visit to the Columbia, Md., office to meet with the Audio Data Science team. "They talked about the Media Rating Council (MRC), among other topics, and the importance of compliance with the MRC minimum standards—and how that relates to the annual audits," Brown says. Her team also solicited feedback on strategies to improve the audit process for all sides. Another key project includes implementing robotic automation in audit processes that are aligned with those of external auditors. Off the clock, Brown can be found "on the water, fishing." She's passionate about conserving marine life and habitats, she adds—and she's a member of the Coastal Conservation Association and Captains for Clean Water.

Before internal audit, **NAUSHEEN AHMED** had a career as a finance professional all planned out. "Working as an internal auditor was not even in my conscious thought," she says now. Indeed, it wasn't even offered as an undergraduate course at the University of Dhaka, where she studied. A chance glance at a job notice led to an internal audit interview and then a job in the profession. "I did not find any function as dynamic as internal audit," she says, citing its blend of finance, marketing, supply chain management, business intelligence, and advisory work. Personal circumstances led to new jobs outside internal audit, but in 2018 she returned to the profession. "She has multidimensional experience due to working in different functions apart from internal auditing, including business intelligence analysis in a social enterprise and financial analysis in a credit rating company," says M. Nurul Alam, secretary general and board member at IIA–Bangladesh. She put that experience to use when tasked with revamping the company's internal audit function, including a change from traditional reporting to an infographic approach. "Internal audit is quite a new function here," she notes. "I work collaboratively with operational management and with risk and compliance functions to strengthen the internal control and monitoring mechanism as a valued business partner." Ahmed is also active with her local IIA affiliate, where she helps organize professional training events and mentors CIA candidates. In her free time, she reads motivational books and writes articles on internal audit topics.

NAUSHEEN AHMED
CIA
30
DEPUTY MANAGER, INTERNAL CONTROL AND AUDIT
MARICO BANGLADESH LTD.
DHAKA, BANGLADESH

> **THIS YEAR'S EMERGING LEADERS ARE HIGH-CALIBER TALENT, DEMONSTRATING DEDICATION TO THE PROFESSION, INNOVATIVE MINDSETS, AND PASSION FOR THEIR COMMUNITIES.**
> —Laura Soileau, Emerging Leaders judge

This is your summit.

Congratulations,
Daniel Meyo on being chosen
as a 2020 Emerging Leader.

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are an inspiration.

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Meet the Panel

The judges for this year's Emerging Leaders see young practitioners with a passion for the profession, strong technology acumen, and great capacity for creative thinking. Overall, they lauded the honorees for their emphasis on innovative thinking and their high level of engagement—both within their respective audit functions and with the profession at-large. An impressive group themselves, the six judges know talent when they see it.

LISHUANG FANG, CIA, vice general manager of Group Internal Audit, Dalian Wanda Group, Beijing; director-at-large and Audit Committee member, IIA Global Board of Directors

BEILI WONG, CIA, FCPA, FCA, CISA, chief internal auditor, Ontario Internal Audit Division, Treasury Board Secretariat, Toronto; director, industry guidance, IIA Global Board of Directors; member, IIA North American Board of Directors

ALEX HARDY, CIA, associate director, Audit and Advisory, Prosperity Advisers Group, Sydney; 2018 Emerging Leader

LAURA SOILEAU, CIA, CRMA, partner, Postlethwaite & Netterville, Baton Rouge, La.; director, professional practices, IIA Global Board of Directors; senior vice chair, IIA North American Board of Directors; 2013 Emerging Leader

KYLE HEBERT, CIA, CISA, manager, Internal Audit/Quality Assurance, Delta Dental of Michigan, Ohio, and Indiana, Holt, Mich.; 2018 Emerging Leader

MARK CARAWAN, CIA, QIAL, Citi chief compliance officer, CitiGroup, New York; director, stakeholder relations, IIA Global Board of Directors

ALEC PALMER practices internal auditing on the edge. Recent engagements include managing more than 20 contractors across multiple projects for a consumer products and services client—he shepherded reconciliation of 900 high-risk balance sheet accounts in two months and helped review 1,200 such reconciliations in 10 weeks. "Procedures can certainly change when dealing with a higher-risk account," says the Texas A&M University graduate. Another engagement began when Palmer was asked on short notice to join a consulting project for a Sarbanes-Oxley client, notes Protiviti Managing Director Jordan Reed. "Despite little preparation time, he adapted to the environment, effectively managing a client resource and several business processes," he reports. A recent project for another global client found Palmer managing a team of contractors working from home in different U.S. locations and collaborating directly with a third party based in India. "Internal audit was not a career path that I was well aware of throughout college," Palmer says. "I knew I wanted to do consulting, but I didn't realize internal audit could be a means to understanding your client's business on such a detailed level." Indeed, he encourages graduates to pursue careers in internal auditing because companies find practitioners' skills highly valuable. "And they're transferable to other types of projects you choose

ALEC PALMER
CIA
30
SENIOR MANAGER
PROTIVITI
HOUSTON

to be a part of," he adds. An active volunteer, Palmer has led the Protiviti Houston office's iCare committee, which focuses on helping the local community, by organizing clothing and food drives, a park clean-up, and a meal-packing event. His work with the committee has also included coordinating opportunities for employees to help out at pet shelters, build bicycles, serve meals at a local food kitchen, and volunteer to assist at the Special Olympics. He travels, he says, tries new restaurants, exercises, and spends time with family and friends.

professional **development**

ELIZABETH HOUSKA excels at cultural relations and communication. "It's incredibly difficult evaluating foreign processes in a foreign language," the University of Mississippi graduate explains, "and adding cultural differences to the mix can certainly cause barriers." In fact, she cites multiple interviews where Google Translate literally did all the talking. She has led teams on audit projects in Central America, South America, and the Caribbean, reports supervisor Frank Holloman, audit manager at FedEx. "She knows that to be successful on an international audit team, she needs to problem-solve not just from a corporate perspective, but from a local perspective as well." She's honing her Spanish skills, Holloman adds, emphasizing that "speaking with audit customers in their native language enhances collaboration and further builds on the business relationship."

Houska anticipated the international aspect of her work, but she didn't see internal audit coming. "I knew I wanted to master a second language, travel the world, and find a job that made a positive impact," she recounts. Then one day a couple of visitors from FedEx came to a marketing class she was attending to promote an internship in internal audit. "One-by-one, they checked off every item on my list," she says. Now she's the internal audit liaison with the FedEx Corporate Integrity & Compliance Department for ongoing anti-corruption compliance initiatives; she's also a Certified Fraud Examiner and is pursuing the CIA credential. Active in her local IIA chapter, Houska also volunteers for Habitat for Humanity, Toys for Tots, United Way, and Junior Achievement. After hours, she takes her two dogs on long walks and explores downtown Memphis.

ELIZABETH HOUSKA
CFE
26
SENIOR AUDITOR
FEDEX
MEMPHIS, TENN.

SHRUTHI RAMAKRISHNAN
27
INTERNAL AUDIT LEAD
ATLAS AIR WORLDWIDE
NEW YORK

SHRUTHI RAMAKRISHNAN is proficient at adapting. She majored in financial accounting and auditing at Mumbai University and initially chose a career in external auditing. "My first exposure to internal audit was at my client companies and networking events," says Ramakrishnan, who's pursuing the CIA credential and also in the process of obtaining her Certified Public Accountant (CPA) license. "I began to realize that internal auditors had a broad knowledge of the entity's business and its operating environment." She moved to Atlas Air as an internal auditor. "We are treated as business partners," she says. "Our recommendations make a positive impact on the organization." Ramakrishnan also notes that internal auditors are constantly challenged to upgrade their technological skills to stay relevant—and to be of more value to the organization. "Today's dynamic and changing environment requires internal audit to pivot and adapt," she says. And Ramakrishnan is well-equipped to do so, says Charles Windeknecht, vice president, internal audit, at Atlas Air Worldwide. "She understands the relationship of key risks, systems, processes, and controls," he says. And she emphasizes data analytics. In one project, she instituted tests on full populations that focus on high-risk areas rather than relying on sample-based testing. Windeknecht adds: "Her team provided management a level of fraud risk assurance that was not previously attainable through traditional testing approaches." Data, Ramakrishnan says, is "the new oil for businesses," so internal audit functions must make the most of it. "I believe using it should be one of the priorities to build a next-gen internal audit function," she stresses. Beyond her audit work, Ramakrishnan supports Junior Achievement and mentors new team members. She's also passionate about arts, particularly Bharatanatyam, a form of Indian classical dance.
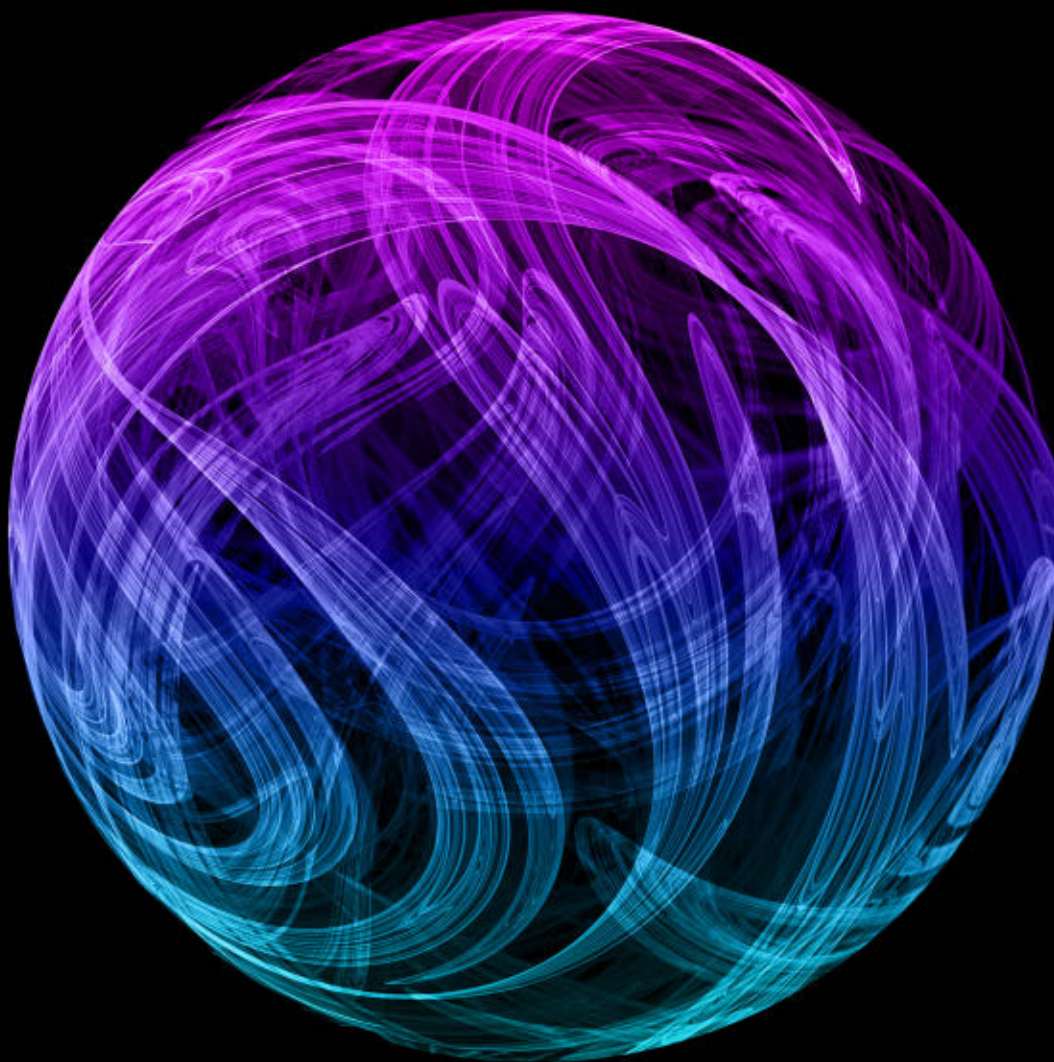
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We would also like to congratulate our own Rachel Jurgens, who was named a 2020 Emerging Leader by *Internal Auditor magazine*. We're proud to have innovative, high-performing leaders like Rachel on our team.

professional **development**

RACHEL JURGENS has a long-held passion for people, culture, and business, so it's no surprise she found success in the field of internal auditing. She describes the profession as "fast-paced, continuously evolving, and more exciting than I could have ever imagined." An internship in internal audit led to the job at her current company. "Whether I'm leading culture and conduct reviews, process and technology audits, or assessments of internal controls over financial reporting, I am continuously challenged and genuinely interested in the work I'm doing," the Queen's University graduate says. "Her work auditing culture, conduct, and other people processes is helping her clients evaluate and manage important risks

that they would not have historically considered," says colleague Maya Douglas, manager, internal audit, at Deloitte LLP. "These reviews include evaluating people processes, policies and governance for discrimination and harassment prevention programs, complaints management programs, workplace well-being programs, and inclusive recruitment and hiring practices." The reviews require unique skills, Jurgens says, including knowledge of leading practices relating to diversity, equity, inclusion, workplace investigations, and workplace harassment and violence legislation. "But the most important skill is the ability to listen to people's lived experiences," she explains, "so I can provide people-centered

RACHEL JURGENS
CIA, CPA, CA
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**SENIOR MANAGER,
RISK ADVISORY**
DELOITTE LLP
TORONTO

recommendations for process, policy, and governance enhancements." Jurgens is national co-chair of the Deloitte Pride (LGBTQ2S+) employee resource group and a National Campus Recruiting lead for the company. "She's helping identify our next generation of internal auditors," Douglas points out, "and

demonstrating that it is okay to be out in the workplace." Additionally, Jurgens volunteers for local LGBTQ2S+ not-for-profits and mentorship programs. She also travels — 50-plus countries and counting — and spends time outdoors snowboarding and hiking with her partner and their dog, Rhett.

SONY THARAYIL
29
**REGIONAL INTERNAL
AUDIT MANAGER -
ASIA PACIFIC**
TRAVELEX
MUSCAT, OMAN

SONY THARAYIL is passionate about, as she puts it, "redefining current ways." She's also resilient — and curious. Combined with passion, The University of Madras graduate says, these qualities define the mindset she brings to internal audit.

"It is a profession with unlimited possibilities," she says. "Being curious and analytical by nature, I am completely driven by the opportunities that internal audit offers me." One was creating the company's first comprehensive risk

and control matrix, notes Antoine van Vlodorp, head of internal audit, Europe and Middle East, at Travelex. Her tool, he says, was adopted formally into the company's audit methodology. Additionally, the audit reporting and audit follow-up methodologies and templates she developed are now used globally in the Travelex internal audit function. Tharayil, who's pursuing the CIA credential, is leading the Company Internal Audit Methodology Transformation Program and the implementation of a comprehensive quality assessment process. And she set up the Travelex internal audit function in Oman that she now manages.

"From a regulatory perspective," she explains, "I was quite happy to note that the region is very prescriptive in its approach to governance; as such, it was easy for me to set up the formal structures for an audit function." Beyond her audit work, as a member of the company's Corporate Social Responsibility Initiative, Tharayil helps "identify initiatives that uphold social and gender equity and other human rights goals." She also spends time with family and friends, traveling and honing her photography skills. ﹇ia﹈

RUSSELL A. JACKSON *is a freelance writer based in West Hollywood, Calif.*

BONNIE TSE

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Recruiting the
NEXT
GENERATION
of Internal
Auditors

Seth Peterson and Alex Rusate

Hiring managers and job candidates each bring different perspectives and needs to the employment interview.

O rganizations are constantly looking for new internal audit talent to help them address the risks of an ever-changing business world. That search creates opportunity for the next generation of internal auditors. However, internal audit hiring managers and job candidates come at the employment search and interview process with different perspectives and with different goals. Two past *Internal Auditor* Emerging Leaders discuss what the candidate and hiring manager both need to achieve during the recruitment process.

THE CANDIDATE

As a young internal auditor, selecting a career path is a critical decision that requires serious consideration. When evaluating a position within an internal audit department, individuals should consider the organization's culture and how it aligns with their personality, the governance structure, and the operational components of the internal audit function.

Culture To understand what type of corporate culture a candidate thrives in, the individual must first understand

himself or herself. It can pay dividends for auditors to perform a critical self-assessment to understand the types of cultures that are the best fit for them. Conversely, not taking time to understand the organization and team culture during a career search can be a major mistake.

For candidates who are new to the workforce, online resources such as the DiSC assessment or the Predictive Index test could shed some light on the cultures with which they are aligned. The DiSC assessment is a personality test that evaluates dominance, influence, steadiness, and conscientiousness traits, while the Predictive Index measures a person's motivations and needs.

Figuring out a company's culture should start even before the application process. Online resources such as Glassdoor post employee reviews and ratings of companies, which can be a good initial indicator of the company's core values and culture. Reviewing the organization's website and social media pages also is a good starting point to assess its core values and culture.

Leveraging the auditor's professional network is another great resource to gauge whether the organization is a good fit. According to a 2018 Gallup study, 71% of workers say they use referrals from current employees of an organization to learn more about job opportunities.

Searching LinkedIn can identify connections who work at the organization and can provide candid feedback about the business. That feedback can give auditors a baseline understanding that they can use to draft insightful questions for the interview.

During the interview, candidates should ask behavioral questions to learn about the management style of the hiring manager and the culture of both internal audit and the company.

Asking questions such as why the interviewer chose the company and what has made him or her stay can provide insights that could sway a candidate's decision about a job offer.

It also is important to see what personality traits the organization values. Asking what personalities tend to be successful at the organization could help candidates determine whether they would be joining a business that encourages or discourages their cultural identity.

Governance Candidates should ask about the organization's governance structure, as well. Governance often drives internal audit's effectiveness, alongside how senior management and the board perceive the value of the function. Internal audit's effectiveness can be significantly impacted if the department does not have organizational independence or senior management does not seriously consider its reports.

In assessing governance, a good starting place is asking to whom the chief audit executive (CAE) reports. Ideally, internal audit should report to the board.

According to Standard 1110: Organizational Independence, the CAE "must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities." This relationship allows for organizational independence of the internal audit activity.

Candidates also should inquire with the hiring manager about what kind of support internal audit receives from senior management and the board. If one of the interviewers is from outside of the department, auditors can gauge how stakeholders perceive internal audit's effectiveness. Two questions that could yield insight into internal audit's effectiveness are:

» How well does the internal audit function align with the
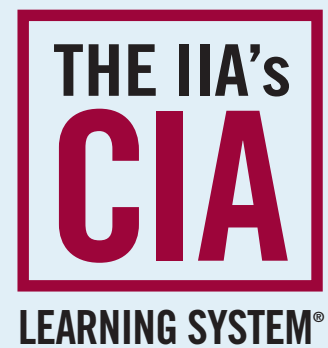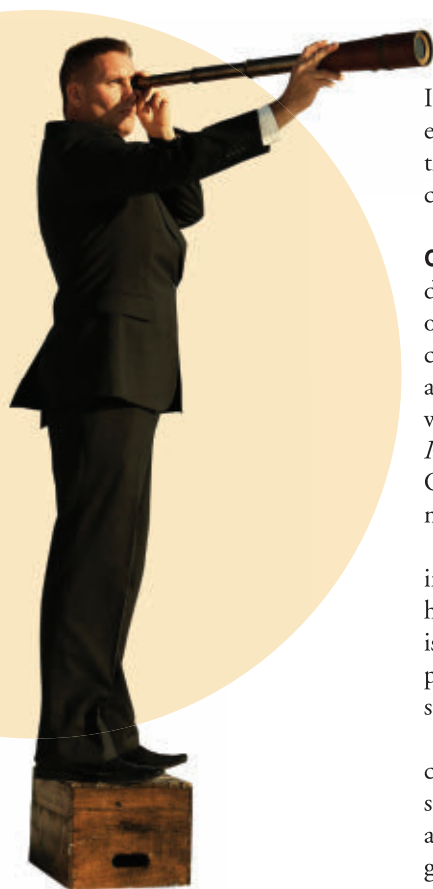
strategies, objectives, and risks of the organization?

» How would you describe your working relationship with internal audit?

If the internal audit function is considered a trusted advisor, this will facilitate the opportunity to make a meaningful change within the organization.

Operations A candidate should take a deep dive into the operational aspects of the internal audit function he or she considers joining. A good question to ask is whether internal audit conforms with the *International Standards for the Professional Practice of Internal Auditing*. Conformance is a good indicator of the maturity of the audit function.

Internal audit should be scoping in audits that matter to its key stakeholders. A question a candidate can ask is how internal audit develops the audit plan to align with the organization's strategies, objectives, and risks.

Audit innovation should be a consideration, as well. A candidate should evaluate what steps internal audit has taken to integrate technologies such as data analytics, computer-aided audit tools, and robotic process

> ## Asking what KPIs internal audit uses to assess its performance can shed light into the department's priorities.

automation into its audits. It is important for young internal auditors to develop skills that incorporate innovative techniques.

Asking what key performance indicators (KPIs) internal audit uses to assess its performance can shed light into the department's priorities. KPIs that tie to audit quality, continuing

professional development, and audit innovation are a positive sign.

THE HIRING MANAGER

Internal auditors work in a great profession, and they should be proud to work for their organizations. Yet, with all the profession has going for it, why is it so hard to attract and retain the best talent?

One of the downfalls internal auditors have is that they think too much. Whether they are trying to connect with the next generation, identifying every possible situation for job candidates, or setting unrealistic expectations, audit leaders complicate the interview process. What if hiring managers simplified the process by evaluating a simple set of critical characteristics, then teaching the other skills needed to the people they hire?

The first question hiring managers should ask internal audit candidates is, "What do you know about our organization?" While this may seem like a trivial question, it often is the most important question of the interview.

Most organizations are proud to post online about their successes, core values, and how they give back to the community. Candidates should easily be able to research and respond with the areas that highlight their strengths. Unfortunately, applicants often cannot articulate why they want to work at the organization.

The content of the answer is not as important as what it says about how prepared the candidate is for the interview. Internal auditors need to be ready for all situations.

If the candidate is not prepared for a structured interview, then audit executives cannot be confident that he or she will be able to respond to impromptu requests from management down the road. When internal audit reviews a new area, the chief audit

executive wants to know the audit team has conducted its research and is ready to provide objective assurance. This opening question provides insight into the applicant's potential.

Once the interview gets past this question, there are three attributes that have proven to be the best indicators of success for an auditor. If the candidate can demonstrate these three skills, then internal audit has found the right candidate.

Can the candidate communicate effectively? Evaluation of this attribute begins with the first communication from the candidate—whether it is through direct contact, résumé, or cover letter—and it doesn't end until the offer is made. Each response to an interview question gives the hiring manager a better glimpse of the candidate's ability to communicate.

As hiring managers ask questions, they can learn how the candidate communicates best. Not everyone will want the same style of communication, but the candidate needs to demonstrate that he or she can identify the style that is best for the situation.

Everyone makes mistakes in communication; it is how people learn and improve that matters most. Candidates should feel comfortable disclosing errors they have made and, more importantly, how they have grown from these mistakes to communicate better.

Can the candidate think critically? The audit position can be tough. There is much information to sift through. The risks and risk responses aren't always clear cut and require sound judgment to assess the current environment. Internal auditors need to be open-minded to be successful. Throughout an audit career, there will be countless situations where an auditor faces a unique situation that can't be taught in a classroom.

By describing their past experiences, candidates can demonstrate their ability to work through a difficult situation, evaluate alternatives, and help solve a problem. When it comes to critical thinking, this is a skill that can be built upon, but it also becomes easier the more the individual practices. Luckily, auditors have a lot of practice in this area, making critical thinking an incredibly valuable skill.

Can the candidate work well on a team? This is a non-negotiable characteristic. Internal auditors must work well together. At the same time, auditors are on the same team organizationally as the employees they will be auditing. Internal audit can't be successful if auditors have an us-versus-them mentality.

The ideal candidate will be able to demonstrate how he or she has worked well on a team, overcome obstacles or difficult personalities, and sacrificed self for the good of the organization. Whether the experience was obtained through music, drama, or volunteering, there are ample opportunities for candidates to showcase how they can work on a team and toward a common goal.

Although many articles describe the skills that make a successful internal auditor, seeing how well a candidate has prepared for the interview and finding the answer to these three questions provide clarity about the auditor's potential. Hiring managers should be willing to take a chance on someone who can communicate effectively, think critically, and be a team player over someone with years of experience and education any day. Ia

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MENTORSHIPS
That Work

Christine Janesko

Professional mentorship programs share some DNA with the centuries-old practice of apprenticeship. In this age-old social contract, young people would work and often live with a master craftsman, absorbing his skills and knowledge to one day take his place as the local baker or blacksmith.

Like apprenticeships, modern mentorships typically involve working relationships between junior- and senior-level professionals with the goal of sharing information, insight, and advice. However, unlike apprenticeships, mentoring exchanges are focused on two-way communication and are—thankfully—less demanding than a 10-year commitment of servitude.

That said, the best mentorships do sometimes result in career-spanning connections. For Brian Tremblay, a one-year mentorship he began as an internal audit

Successful mentoring programs can improve communication and leadership skills and result in career-spanning relationships.

manager for a publishing company was the start of a more than 10-year relationship that he maintains today, three jobs and several titles later. "To this day, I have my monthly one-on-one with my mentor," says Tremblay, now a compliance practice leader at Onapsis, a cybersecurity company in Boston.

Research shows that mentoring relationships can improve communication and leadership skills and help with employee retention and engagement. However, even knowing that mentorships can be positive for all involved, it can be difficult for audit leaders or other executives to know where to

begin. Several business professionals who have been involved in mentorship programs as mentors, mentees, or program organizers offer their "dos" and "don'ts" when creating a program.

MESH WITH THE ORGANIZATIONAL CULTURE

Mentorships come in many different flavors. Many mentoring programs are aimed at developing leadership skills in a select cohort, but they also can be used to help onboard new employees or to support company diversity and inclusion efforts. For instance, Grant Thornton created a

program specifically for the women managers and directors within its advisory services practice. The women are paired with high-ranking leaders at the firm to help open doors to new relationships, skills, and opportunities, says Adam Ross, a principal at the firm's advisory services practice. The firm also is working on a mentorship program for its younger women professionals, along with other program enhancements.

Other types of mentorship programs are designed to integrate new employees into the organization. David Dominguez, head of audit at ITAFOS,

A MENTORING PROGRAM FOR AUDIT PROFESSIONALS by Nancy Haig

Not all mentoring programs are confined within an organization. The IIA recently completed a successful pilot of its Emerging Leaders Mentor Program (ELMP), which paired 10 emerging professionals with 10 senior internal audit leaders from throughout the U.S.

When asked to be one of the initial mentors in the pilot program, I immediately agreed. Having participated in formal programs as a mentor, I understand the significant value to mentees and the rewards for mentors.

About the Program
The ELMP, an initiative of The Institute's volunteer Emerging Leaders Task Force, is designed to provide guidance to young professionals in developing their career goals, to develop leadership skills and increase self-confidence, and to invest in the future of the profession. The pilot program kicked off in late 2019. Mentors included members of The IIA's North American Board of Directors and volunteer committees, and many of the mentees were individuals who had been previously recognized as *Internal Auditor* magazine Emerging Leaders.

Jami Shine, corporate and IT audit manager at the convenience store chain, QuikTrip, was one of the mentors. "I was thrilled to be paired with a mentee who had a similar career path to me, including moving from external to internal audit and specializing in IT audit."

Kimberly Smith, internal control analyst at trading firm Mitsui & Co., and a program mentee, agrees,

saying she was paired with a mentor who was well-suited for where she is in her career. "Although I am not new to the profession, I was still seeking insight and guidance from someone who was experienced as an auditor, still at the top of their game, and was open to sharing lessons learned along the way with me," she explains.

Mentors and mentees were provided tools, including formal handbooks and virtual kick-off sessions, to prepare them for their mentorships. Among the guidance they received, mentors were encouraged to allow their mentees to openly discuss issues they may be facing, share issues the mentors routinely face, encourage mentees to pursue professional certifications and designations, provide networking opportunities, assist the mentees with their personal development, provide constructive feedback and follow-up, review and provide feedback on professional social media accounts (e.g., LinkedIn), and engage in "out-of-the-box" ideas such as co-authoring an article or participating together in online training. Mentees were encouraged to be proactive and prepared, plan productive meetings, take advantage of their mentors' experience, use the mentorship relationship as a networking opportunity, and maintain the relationship in the long term. Mentor pairs established their own meeting schedules and goals.

Gauging Success
A survey was conducted midway through the program to determine how things were going, from both the mentors' and mentees' perspectives, and close-out sessions were

a global mining and fertilizer company, still talks with admiration about the mentoring culture he witnessed at his former employer, Occidental Petroleum. "Each new hire had two mentors. The first one is a peer or one-level up within your department, and the other is someone [outside] your department, but somebody you would likely interact with as part of your job and responsibilities," Dominguez says. "It's really meant to incorporate them into the company and the culture, ease the onboarding process, and break silos."

Still other organizations build a mentorship framework into the design of the company, itself. At Protiviti, each employee has a network of advisors — a peer advisor, a career advisor, and an executive advisor. The intention is to connect Protiviti's workforce with a multitude of people and to provide a safety net if they change roles, says Caryn McGarrity, director of performance development. "Each plays a different role in helping to shape a person's experience with us."

HAVE A SUPPORT STRUCTURE

According to CEO Charu Sharma in "How to Build a Mentorship Program That Actually Works" in *Inc.*

magazine, two of the biggest mistakes made with mentorship programs are poor management and neglecting to provide participants with the resources to help them navigate their conversations. Mentors need training and support, which most likely is provided by human resources (HR), but also could come from other sources. For instance, Protiviti's advisor-mentors get help through training, live webinars, and on-demand online courses.

For its women's leadership program, Grant Thornton recommends materials such as articles, books, podcasts, and TED Talks on topics

held in July. Overall feedback from both mentees and mentors was very positive. "We worked with our mentors on strategies to achieve goals and frequently touched base on our progress," says mentee Alex Rusate, a senior internal auditor at New York Independent System Operator. "My mentor took a genuine interest in my progress."

Sarah Wilder Murray, a senior internal auditor at Savannah River Nuclear Solutions, says she appreciated learning through her mentor's personal experiences, "particularly navigating a career during a global pandemic." And Smith adds, "As a result of meeting my mentor, I feel more confident in myself and more certain of my capabilities as an auditor. She taught me the importance of creating a professional brand and provided me with so many nuggets of wisdom that I plan to use throughout my career."

Mentors appreciated the opportunity to participate in the program, as well. "As a mentor, I benefitted just as much from the program as the mentees," Shine says. "I enjoyed getting to know a talented newer auditor, and her diverse experiences brought a lot to the table. I loved seeing her passion and excitement, and it reminded me of my own passion for this incredible profession."

Mentor Jude Viator, consulting audit director at accounting firm Postlethwaite & Netterville, says he has always had a passion for mentoring, including formal and informal mentoring at his organization and through community outreach programs. "This experience was similar but more dynamic due to my mentee's passion and professional drive," he says. "Each interaction offered an

enjoyable blend of personal connectivity mixed with professional growth. The real takeaway was learning from my mentee through self-evaluation and admiration of his enjoyment in taking on new challenges."

I, too, had a very positive experience. My mentee and I chose to meet weekly, and she was always prepared and followed up each session with action. Although I can't take any of the credit, I may have been even more proud and excited than she was when she passed both the Certification in Risk Management Assurance (CRMA) exam and the second part of the Certified Internal Auditor (CIA) exam during the program. My mentee also worked on her LinkedIn profile to accentuate her strengths and experience and expanded her professional network. For me, seeing others succeed is the best personal reward, and participating in the mentoring program provided that opportunity.

Not surprisingly, many of the participants plan to continue their professional relationships, even though the formal program has ended. "I look forward to maintaining a relationship with my mentor for the foreseeable future and am so grateful that this mentoring program paved the way for our paths to cross," Smith says.

NANCY HAIG, CIA, CCSA, CRMA, CFSA, *is chair of The IIA's North American Board of Directors. Read more about The IIA's mentoring program* <u>here.</u>

such as leadership and diversity that both mentor and mentee can discuss monthly — along with topics of personal interest they come up with on their own. Similarly, Tremblay's

> **While mentoring programs do need structure, they shouldn't require a huge time commitment.**

year-long program required mentors and mentees to work on scenario-based problems that were specific to the company each month. "I think one of the benefits of the mentor program and getting paired up with

somebody who lives those situations every day, is they can provide you the context of how those things actually happen in the organization — those organizational politics — which much better prepares you than some kind of generic, out-of-the-box response to a difficult situation," he says.

In the onboarding mentorship program described by Dominguez, mentors were expected to do more informal, culture-based activities such as go for lunch or coffee, introduce mentees to co-workers, and discuss goals and interests. Dominguez says the program worked because expectations were clearly laid out. "There is a structure. There's accountability. It's a well-thought-out and practical program where there is also transparency and ownership because everybody knows

what to expect and what the goals are," he says.

While mentoring programs do need structure, they shouldn't require a huge time commitment or too much in the way of assignments or there may be challenges getting people — especially mentors — to sign on, Dominguez adds. "This is something that is valuable and that will take time, but it is not meant to be over-engineered and take too much time on either side."

Some best practices are clear timelines, regular check-ins with HR, and a feedback survey at the end. It's also important to provide participants with expectations or goals to complete.

MATCH MENTEES WITH MENTORS…

Although there are many ways to match mentees with their mentors, mentees are almost always paired with someone who is their senior. Some organizations use questionnaires to pair people on the basis of interest or personality.

Although it takes time to develop, trust is one of the key elements in a successful mentor-mentee relationship. A mismatch can result in a bad outcome. In an ongoing program, it can be helpful to connect people to more than one mentor or rotate them to a different mentor from time to time. Protiviti allows employees to change advisors throughout its program. "Our people tell us that's really valuable," McGarrity says. "And it's not necessarily that it's not a good match; they may just want to expand their network."

A self-service matching program is another option, which may make the process simpler in a large company. However, organizations that have the resources to match people according to interest or personality can help people make connections they might not have made otherwise.

In Tremblay's situation, he was at first wary about being paired with his mentor, who is an HR professional, thinking someone in sales or operations would be a better fit. Tremblay questioned the match, but the head of HR encouraged him to trust the process and the result was a relationship that is ongoing today.

"To be able to grow and expand your horizons, I would encourage individuals to find a mentor outside their four walls," says Scott Madenburg, director of account management at AuditBoard. "A mentorship should provide you with an outside perspective, and you will not always get that speaking to someone who is walking the same path as you. If you don't speak with someone on a different path, you may not know what else is out there or learn about different views or potential directions."

Harold Silverman, managing director of CAE Solutions for The IIA,

U.S. internal audit leader for Deloitte, says mentees need to initially drive the relationship and be clear on what they hope to get out of the time with their mentor. It's also important that both commit the time and invest in each other to allow for the relationship to become mutually beneficial, she says. "Actions should be discussed through each session, and then it's important for the mentee to follow through on those actions and provide updates on future calls. Mentors will stay engaged when they know their mentees are acting on their advice."

DON'T FORGET TO GET BUY-IN

Without support from HR and the C-suite, an organization's mentorship program may end up withering from lack of attention. Just as with any cultural endeavor, the tone at the top can help promote and support mentoring or just pay lip service to it, speeding its demise. According to

> ## Without support from HR and the C-suite, a mentorship program may end up withering from lack of attention.

agrees, saying there are positives to developing new relationships with people outside of the audit department. He adds that "unless the organization's audit department is sizable, setting up a program just within an audit function isn't ideal. Most audit departments are too small."

…OR FIND YOUR OWN MENTOR

Not every organization has a formal mentoring program, and in that case, internal auditors can benefit from seeking out mentors. In reaching out to potential mentors, Sarah Fedele,

Dominguez, if properly developed and managed, mentorships foster organizational growth, professional development, diversity and inclusion, and networking opportunities. "Mentoring programs are part of an organization's culture," Dominguez says. "They crystallize an entity's values and demonstrate that management cares about and embraces the advancement of all its team members." Ia

CHRISTINE JANESKO *is a content developer and writer, Standards and Professional Knowledge, at The IIA.*

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the *Seducer's* Game

Sanya Morang
Steve Morang

Illustrations by Gary Hovland

ntelligent, innovative, witty, charming, persistent, optimistic, bold, adaptable, and business savvy — these often are the key traits of a leader. But what if those traits mask other, less exemplary characteristics, such as being manipulative, deceptive, fearless, and thinking he or she is untouchable, while also lacking any sense of integrity, honesty, and empathy? Unfortunately, these traits can coincide within the same person.

The unique combination of these personality traits defines a seducer, which can be seen in modern-day fraudsters such as Theranos' Elizabeth Holmes and Fyre Festival's Billy McFarland. Within the Seduction of Fraud methodology, seduction refers to a psychological process that often plays a significant role in contemporary frauds. Therefore, it is important for internal auditors to understand the seduction of fraud and how it relates to fraud prevention, detection, and investigation within their own organizations.

THE SEDUCTION OF FRAUD DIAMOND

For decades, internal auditors have relied on the elements of the Fraud Triangle — pressure, opportunity, and rationalization — to understand fraud and develop internal controls that limit the risk of fraud to their organizations. While experts have provided alternatives to the Fraud Triangle, a new approach can be used to understand and prevent the latest variations of fraud, what we call Big Frauds, from occurring. These Big Frauds — such as Fyre Festival, Theranos, Volkswagen, and Wells Fargo — are similar to their

A new methodology illustrates the psychology behind modern-day frauds and offers a tool to limit risks within organizations.

traditional counterparts, yet stark differences become apparent under evaluation. It was through this evaluation that we realized the limitations of the Fraud Triangle and developed a tool to replace it—The Seduction of Fraud Diamond (See "The Seduction of Fraud Diamond" on this page).

There are differences between the Fraud Triangle approach and the Seduction of Fraud methodology. First, it is important to understand the original intent of Donald Cressey, who is attributed as the creator of the Fraud Triangle. As a criminologist, Cressey wanted to understand why trusted employees without a history of unethical or illegal behavior would decide to betray their employers. So, after excluding from his study anyone with a criminal record or a history of unethical behaviors, Cressey interviewed inmates who were first-time embezzlers to determine any similarities among them and try to understand their motivations. His observations and key takeaways resulted in the well-known attributes of the Fraud

Triangle. But the study's objectives and parameters point out obvious limitations in applying the Fraud Triangle to a wide array of modern white-collar schemes and perpetrators.

The Fraud Triangle's primary weakness is its basis of starting with an honest person—a person who needs a combination of specific motivations and circumstances to commit fraud. The Fraud Triangle fails to explain why most people involved in the Big Frauds had no history of criminal activity or unethical behaviors, yet committed fraud even though there were no circumstances that justified their behavior.

THE PSYCHOLOGY OF FRAUD
The Seduction of Fraud methodology examines human behavior and ethical decision-making related to fraud. Using this methodology, auditors not only rely on traditional understanding within the anti-fraud and audit community, but they also reach into the fields of analytical psychology, psychiatry, literature, philosophy, and religious studies. Combining these divergent areas of study can

bridge the gap between fraud prevention, ethics, and human behavior.

As a psychological process, seduction has existed since the beginning of time. It is described in religious scripture in the Garden of Eden; historical chronicles of Cleopatra's power and control; and 18th century Giacomo Casanova's detailed use of seduction as a tool to commit frauds, cons, and social engineering. From an early age, Casanova understood the importance of reading the emotions of others, which allowed him to manipulate and deceive, and become one of the most infamous con artists in history.

Understanding the true meaning of the Seduction of Fraud requires removing the veil of normal human behavior to look earnestly at the inner core of humans to realize their true motivations. The Seduction of Fraud Diamond starts with a temptation, which might involve some sort of pressure, but does not require it. Once the temptation is set, the next part of the psychological process begins: deception. The goal of seduction is to

THE SEDUCTION OF FRAUD DIAMOND

OPPORTUNITY
(existing or created)

TEMPTATION
(with or without pressure)

ENTITLEMENT
(no justification or rationalization needed)

BOLDNESS
The ability of the perpetrator to act in a way that is considerably more courageous and/or considerably more confident than the average person.

gain power and control over the person being defrauded — not through force, but by subtle coercion. The seducer's aim is to make victims feel as if they are in control and making decisions on their own, for their own benefit. It is only after the fraud is exposed that the illusion becomes apparent. Therefore, seducers can either use the Seduction of Fraud to commit fraud themselves, or they can use it to convince other people to commit fraud or perform unethical actions without their full knowledge or understanding.

ATTRIBUTES OF THE SEDUCER

Understanding the attributes of the Seduction of Fraud Diamond and their application through audit procedures can help in the design of effective internal controls. While simple frauds still exist — such as the trusted bookkeeper who steals to pay for her husband's gambling addiction — they are no longer the largest risks to the organization. It is the modern-day seductive fraudsters who will more likely cause turmoil in an organization at a multitude of levels — financial, reputational, legal, compliance, etc.

While many of the seducer's personality traits are positive attributes, it's the traits that are missing that cause problems (See "Common Seducer Personality Traits" on page 58). For example, integrity, loyalty, and empathy are all missing, which should be a huge red flag for an auditor. Boldness without integrity can easily turn villainous. Additionally, when boldness is combined with any other negative personality attribute or personality disorder, such as narcissism or psychopathy, it can be a considerable threat to an organization. While opportunity is the most self-explanatory attribute of the Seduction of Fraud Diamond and the Fraud Triangle, the main difference is that in the Fraud Diamond, opportunity can

> ## It is only after the fraud is exposed that the illusion becomes apparent.

be created, whereas the Fraud Triangle implies that opportunity must already exist. It is unchecked boldness that allows a potential fraudster to exploit existing opportunities or, if needed, create new opportunities. Furthermore, in many of today's social engineering schemes, fraudsters use psychological manipulation to reach their goals.

INVESTIGATION AND ANALYSIS

Another weakness inherent to the Fraud Triangle is that it relies on a functioning conscience. The conscience is meant to warn a person when making questionable decisions before violating an internal boundary. Even when a person has a conscience, his or her moral compass might be faulty. For example, when during a research study we asked fraudsters to explain whether their conscience bothered them when they were planning the fraud, there

were recurring responses: "Yes, but only for a few minutes." Therefore, internal auditors must consider the possibility that a perpetrator's conscience may prohibit his or her moral compass from functioning correctly.

> # Not every person who has narcissistic personality traits is a fraudster.

A faulty conscience may be a sign of narcissism, but not every person who is narcissistic or has narcissistic personality traits is a fraudster, and vice versa. Therefore, it is crucial to be conscientious about conclusions that are not substantiated through factual evidence. This is where an auditor's investigative skills can affirm or dispel any initial concerns.

Alongside narcissism, a faulty moral compass explains an increase in entitlement, a key attribute of the Seduction of Fraud Diamond. Self-aggrandizing behavior, which recent studies show is increasingly more common in today's society, often leads to entitlement—a criterion used to diagnose a person with narcissistic personality disorder.

The Fraud Triangle's final weakness is that an employee's privacy makes it impossible for internal auditors and management to understand or analyze external pressures on that employee. This does not mean organizations need to or should conduct psychological profiles on every employee within the organization, but, at the very least, internal auditors should sharpen their skills of discernment using the Seduction of Fraud approach. Using the Seduction of Fraud Diamond will enable auditors to be attentive to potential behavioral red flags. If a person is under careful observation, and the number of red flags begins to accumulate, auditors can then consider what actions, if any, should be taken.

UPDATE YOUR TOOLBOX

Internal auditors need to understand that individuals do not necessarily fit into the framework as defined by the Fraud Triangle. By updating their professional toolbox to improve their analysis, internal auditors can better understand human behavior and detect potential behavioral red flags that could be indicators of the next Big Fraud. Internal auditors can use the insights provided by the Seduction of Fraud Diamond to prevent similar scandals at their own organizations. **Ia**

COMMON SEDUCER PERSONALITY TRAITS

The personality traits that historical seducers and modern-day fraudsters share include being:

- » Improvisational
- » Flexible
- » Innovative
- » A risk taker
- » Intelligent
- » Charming
- » Bold
- » Assertive
- » Discerning
- » Persistent
- » Witty
- » Reinventive
- » Business savvy
- » Adaptable
- » Manipulative
- » Deceptive
- » Fearless

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QUESTIONS
About the New Three Lines Model

Robert Perez

Volunteers who helped shape The IIA's recently published Three Lines Model realized early on they had two formidable tasks to accomplish. First, they had to create a model that clearly and simply articulates key roles in effective governance. Second, the new model had to improve the original Three Lines of Defense model, which has become deeply ingrained in modern risk management practices, regulatory processes, and laws around the world. As the leader of the working group assigned to the project, IIA Global Board Chair Jenitha John understood the challenges and the stakes involved.

To date, response to the new Three Lines Model has been largely positive. This affirmation of the working group's efforts reflects the meticulous and studied process of updating arguably the best-known and most-used model.

John recently discussed the process to develop the Three Lines Model and her excitement and hopes for the final product.

1 **What was your idea of the mission going into the project?**
John: We pulled together a diverse group of individuals from around the world, and our mission was to first understand how well the Three Lines of Defense Model was embedded in different geographies and what

IIA Global Board Chair Jenitha John discusses The Institute's journey to build a model for the 21st century.

needed to change. We brought together a group of people who could give us those perspectives.

We didn't go in with any pre-conceived ideas of what we wanted to build. We wanted it to be a consultative approach where we collaboratively wrote, and we checked, and we surveyed. We had to consider the different industries and sectors, whether private sector or public sector. Those are the things that we considered in terms of shaping what we landed on for the Three Lines, itself.

2 What did the task force learn from this approach?

We wanted to bring in all of those perspectives to show us how well the Three Lines of Defense is embedded. What are the negatives? What are the positives? What is needed to make it more fit for purpose in organizations that are struggling to embed it? We also wanted to know how to make it a little more future oriented.

With all that in mind, when we started receiving feedback, it became very evident that this wasn't going to be a revolution, but rather an evolution of the model, itself, because we had some strong voices for keeping it as it is. But, be that as it may, we also had some strong voices who were saying, "Just tell us how to make it work." Then we also had a few who were very critical saying, #Kill3LOD.

3 Did the integrity of that process hold up well?

Yes, we had fantastic takes in terms of the level of confidence that we received from the different parties that participated from around the world. In round one we had a little bit of bias toward more internal auditors giving their perspectives. On the second round, we targeted viewpoints of other stakeholders. We didn't just have the

UNDERSTANDING GOVERNANCE ROLES

The Three Lines Model uses the language of "lines" differently than the previous model. It refers to "first line roles," "second line roles," etc., and not to "the first line," "the second line," to confirm it is not about structure but about roles and relationships; how they may be assigned, combined, or separated; and their interrelationships. The model moves away from discussions about "crossing the line" or "blurring the line." Roles should always be clear. The roles may be assigned as the organization decides (or regulator requires). First and second line roles can be separated or blended. Individuals, teams, and functions may have a mix of such roles or be more specialized.

» First line roles are defined as those most directly focused on providing the client with products and services, and include the roles of support functions such as human resources, administration, and IT.

» Second line roles are those that focus on specific aspects of risk management, including compliance with ethical, legal, and regulatory requirements; control; quality assurance; IT security; sustainability; and broader responsibilities such as enterprise risk management. Second line roles provide additional challenge, expertise, oversight, and scrutiny, but those with first line roles are responsible for managing risk.

» Third line roles reside exclusively with internal audit. Internal audit provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management. It achieves this through the competent application of systematic and disciplined processes, expertise, and insight. It reports its findings to management and the governing body to promote and facilitate continuous improvement.

working group. We had the advisory group that constituted principal partners, regulators, and standard-setting bodies. We solicited feedback directly from them throughout the process, which certainly kept us alert.

4 How cognizant was the group regarding having a simple and straightforward model?

At the outset we were told people adopted the original model because of its simplicity. People adopted it because they were able to traverse across the three lines and see these aspects in their organization. That simplicity helped it gain traction and momentum in terms of being implemented in organizations. It is embedded

in many regulatory frameworks, as well, in the financial services industry, and even the public sector uses the model. So we knew we couldn't make the revised model complex. It would lose its appeal if we had come up with something completely different.

5 When did the importance of overall governance become evident in your discussions on updating the model?

When we looked at the Three Lines of Defense model, it was very much focused on risk management. Then you had spin-off papers in terms of the enterprise risk management fan diagram and all those things coming into play. What we realized is that

these activities are so intertwined in an organization. Why not bring all these aspects together and shape it under governance, itself?

Who has oversight of this entire ecosystem? Who is responsible for executing the actions in the organization in accordance with the frameworks, policies, practices, and guidelines? Who would then give the assurance back to the governing body on whether everything is working in sync in the organization? I call it the tone at the top, the tune in the middle, and the rhythm on the dance floor.

6 Tell us how the new model breaks down those questions into distinct and clear roles and what responsibilities fall into each role.

It's about embracing all who are working in governance. What are those little nuggets that get us to collaborate better to ensure, ultimately, that we attain organizational objectives and create and enhance value for the organization? Far too often — and I've seen it in many organizations — you have disciplines working in silos. The old model cultivated and reinforced silo thinking.

The new principles-based model encourages talking about the entire ecosystem. One of the principles focuses on collaboration and coordination. It shows how organizations can bring together all of these disciplines. It's not only about talking about the risks from an emerging perspective, but what opportunities you see when an organization actually harnesses the wisdom across the three lines

to bring about the positive impact on an organization (see "Understanding Governance Roles" on page 62).

7 The concept of harnessing the wisdom from across the organization captures nicely one of the keys of the model, which is that each component within governance has its role to play. Tell us about that.

At the outset, we realized that governance was going to be a main component of the model. Governance in itself has three essential requirements, and we were able to arrive at that while we were crafting the new model.

In its most basic sense, governance has three requirements: Put simply, somebody is responsible, somebody else executes the task, and someone else

WHAT HAS CHANGED AND WHAT IS NEW

THE THREE LINES MODEL	RATIONALE
» Omits the word "defense."	» Defense is not the model's sole, or even primary, focus. Likewise, defense is not the primary focus of risk management or of organizations generally.
» Is grounded in governance as opposed to risk management. This includes both value creation and protection, and both offensive and defensive aspects of managing risk.	» Internal audit is indispensable to governance. » Understanding how effective risk management fits into overall governance makes it easier to explain how the key components relate to each other. » Organizations don't exist to manage risk. Risk management is part of governance.
» Defines governance as requiring three essential components.	» Accountability — by the governing body to stakeholders for oversight. » Actions (including managing risk) — by management to achieve organizational objectives. » Assurance and advice — by an independent internal audit function to provide insight, confidence, and encouragement for continuous improvement.
» Defines explicitly six principles on which it is based.	» A principles-based approach makes the model more flexible and fit for purpose for any organization.
» Encourages a principles-based approach to match the needs and circumstances of an organization.	» All organizations are different and there can be no "one size fits all."
» Recognizes the significance of the governing body's role in the model.	» Arguably, in the Three Lines of Defense model, the governing body should have been described as the "first line" because it is where governance starts and perhaps is the most important.
» Describes management responsibilities as comprising first and second line roles regardless of how they are allocated.	» There may be senior individuals with second line roles, such as a chief risk officer, who report directly to the governing body to create a degree of independence. However, these individual roles remain within the scope of management's responsibilities.
» Defines internal audit's unique position in being independent from management and the responsibilities of management.	» Because of this independence, internal audit is able to provide objective assurance and advice.
» Confirms that it is not possible to be both independent of management and assume management responsibilities (i.e., first and second line roles).	» Where internal audit has these first and second line roles, independent assurance on such activity must be drawn from other sources.

again provides confirmation. More formally, governance requires:

First, accountability—to stakeholders, through trust, confidence, openness. This role is usually played by a board or governing body.

Second, actions—plans, decisions, operations, and application of resources. This role is assigned to management.

And third, assurance—independent, objective, authoritative confirmation that everything is working as it should. This is undertaken by an internal audit function, which can be the "eyes and ears of the board."

So for us, taking governance and unpacking it into these three critical components is what we landed on. That's why we made the model principles-based so that people recognize these things and hold each other accountable for the parts.

8 **Organizations are going to compare the old model with the new model. How should organizations embrace the new Three Lines Model?**
There is a distinction in terms of organizations that have the model fully embedded, those that have it partially embedded, and those that struggle with embedding it. Each organization will have to decide its own unique dynamics.

Those that have it fully embedded should view the new model in terms of what needs to change within the organization (see "What Has Changed and What Is New" on page 64). For example, how is the organization embracing coordination and collaboration and the whole combined assurance aspect? Are you able to demonstrate that to your governing body? Validating the alignment of the refreshed model to your organization will give you the perspective in terms of what needs to change.

We hope that the revised model will be useful for those that have struggled with the implementation. The IIA

plans to publish supplementary papers looking at different sectors and industries to make it a lot more amenable for organizations to quickly implement.

9 **No assessment of the new Three Lines Model is complete without discussing the featured role of the governing body. How does that differ from the original?**
The narrative on the governing body was left out from the initial model. By focusing on the governing body's role, the new model becomes an enabler to those charged with governance to shape structures, systems, practices, and processes to be flexible enough to accommodate the ever-changing risk landscape and be fit for future. Ultimately, the aim is to receive the relevant assurance across the organization on governance matters within the entire ecosystem.

10 **How should the new model be seen against the backdrop of the COVID-19 pandemic and its impact on organizations?**
This is an opportune time for the Three Lines Model to launch when you consider how things have changed around platform, people, and processes. COVID-19 has accelerated the fourth industrial revolution, and it has caused the control environment in organizations to change.

Because of COVID-19, the control environment is no longer just on premises. It has expanded into employee homes. It has expanded into the cloud. The Three Lines Model will allow internal audit to work in collaboration with all other disciplines in the organization to pinpoint and identify these aspects, and to harness the wisdom of those different disciplines to see, anticipate, plan, and mitigate going forward. [Ia]

ROBERT PEREZ *is director, Content Development and Delivery, at The IIA.*

MORE

To read **MORE** about the Three Lines Model, click here.

Board Perspectives

BY MATT KELLY

THE NEW PRESSURES FOR GOING-CONCERN WARNINGS

The pandemic has added complexity to the assessment of an organization's ability to maintain operations.

The purpose of a corporate board is to help management keep the organization going. That abstract idea has taken quite the concrete turn lately, with heightened attention over an organization's ability to continue as a going concern.

Historically, going-concern warnings were the domain of audit firms, which for years have had to evaluate whether there was substantial doubt about a company's ability to keep operating for the subsequent 12 months. Things began to get more complicated in 2017, with new accounting rules that required management to evaluate the company's ability to continue as a going concern — and if substantial doubt did exist, also to disclose what management planned to do about it.

Then came the coronavirus, straining businesses like never before. As the first crisis to arrive since those expanded duties for going-concern disclosure, it has left everyone — boards, senior executives, audit teams, and even regulators — grasping for precisely what to say.

"That's the real crux of the matter — how to assess going concern during a pandemic," says Stephen Masterson, who serves on the audit committee of ShelterBox USA and runs his own technical accounting advisory business in California. "If there used to be one way that a going concern would be evaluated, now there are 10 times more ways to assess with a pandemic happening."

First, Follow the Money

Research firm Audit Analytics identified 42 companies through mid-July whose audit opinions raised going-concern warnings and cited COVID-19 as one contributing factor. Some, such as J. Jill and Stein Mart — retailers with large physical operations, shut down thanks to the coronavirus — were unsurprising candidates. Others ranged from energy firms, to online retail, to finance, to life sciences.

What, specifically, was going the wrong way at those firms? Audit Analytics flagged several issues. Most common were operating losses and negative cash flow from operations. Debt maturity was another common problem, as were the need for additional financing and "absence of significant revenues." Almost all of the firms Audit Analytics identified had more than one issue cited in the auditor's opinion.

The common theme in all those factors is liquidity: whether the company has enough cash coming in the door, or already on hand, to keep paying the bills while management weathers the storm. So as boards and C-suites consider the organization's ability to continue

as a going concern, tracking liquidity metrics becomes an urgent priority.

For example, Masterson recommends assigning a financial analyst to manage a rolling liquidity forecast updated at least weekly, if not daily. That forecast should be shared with the CEO daily, and with the audit committee at least weekly.

His worry: Managing and forecasting liquidity is a job best suited to the corporate treasury department—which, beyond the Fortune 500, many organizations don't have. "So a lot of companies do this a bit blindly," he says.

A controller or chief accountant might be able to do the work, with assistance from the chief financial officer or perhaps even outside help. Then comes the next question: Will board directors understand what they're reading? Considering how much other material directors have to digest, and that many directors hail from operations rather than finance backgrounds, the answer could well be "no."

"Somebody has to be able to show it and explain it to both the smartest person in the room and the most basic person in the room," Masterson says, "so that everyone knows what they need to know to manage, run, govern, and assess the company during a crisis."

Second, Come up With a Plan

There's another challenge here, too: reassessing strategic and operational risks to develop a plan that keeps the organization

> # The coronavirus introduced many new risks executives never had to consider.

going for the long term. The coronavirus complicates that work as well, because it has introduced so many new risks that executives have never had to consider.

A formal annual risk assessment can be a reasonable place to start, but as Christine Smith, former chief audit executive at auto parts supplier Tenneco warns: "Is there something new that's a risk to the organization with COVID-19 that I didn't have before?"

Smith gives an example from Tenneco during the financial crisis of 2008. Until then, Tenneco hadn't considered its third parties to be significant financial risks—because what was the chance that two of the largest, most established auto manufacturers in the world would go bankrupt at the same time? But Chrysler and General Motors did exactly that in 2008.

"What's in your risk universe? Because certain things that were not a risk for you before may be a risk today," Smith says. Audit committees and management need to connect those expanded business risks to specific bad outcomes such as impairments of goodwill or intangible assets, which can hammer the balance sheet and earnings reports.

That raises yet more questions: What are your key performance indicators (KPIs) to monitor such triggering events? Are the KPIs that you historically use still suitable for these more uncertain times, or should you develop new KPIs better suited to the risk?

More broadly: What will the company do to address strategic challenges implicitly raised in going-concern warnings? After all, management's plans to alleviate that substantial doubt are part of the disclosure, too.

Masterson recommends that boards "look beyond the horizon" and devise long-term survival strategies, "versus hand-strapping it with reserves and write-downs on the balance sheet to appease the auditors and regulators. Those things have to come in balance," he says.

Where Internal Audit Can Help

Clearly audit committees and management need help when trying to determine the organization's ability to continue as a going concern and what steps might remedy a precarious situation. Internal audit teams could help in several ways.

First, internal auditors should consider the company's reliance on forecasting and scenario planning. They wouldn't necessarily audit the forecasts that were created, Smith says, but they could examine the processes management uses to generate forecasts—perhaps examining issues of data accuracy or consistency; or reviewing treasury processes over debt agreements and management of leverage ratios.

Likewise, internal audit wouldn't audit any strategic choices the company makes, but it could help management understand how to strengthen some business processes to improve cash flow or how some choices might have consequences for other parts of the enterprise. The internal auditor can be "an outside observer and listener to management," Smith says, "and provide input there."

Masterson says the same. Auditors—both internal and external—should provide input and feedback "all along the way," he says. "If they only learn about what the auditor's viewpoints are at the reporting date, that's too late."


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TO COMMENT on this article,
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BY J. MICHAEL JACKA

IKEA AND INTERNAL AUDITING

A psychological phenomenon explaining the appeal of DIY products offers lessons for practitioners.

We live in a world of cognitive biases. We cannot eliminate them; they are a part of being human. But we can become more aware of them, enabling us to better control such biases in ourselves and understand how they affect others.

That brings us to IKEA. The company found a nice niche—a combination of price, value, and do-it-yourself appeal—that attracts a wide range of consumers. If I asked an audience of internal auditors how many have shopped at IKEA, I'm guessing a large percentage of hands would raise.

In 2011, researchers brought the worlds of cognitive bias and IKEA together by identifying a bias they called the "IKEA effect." It refers to how people attach a higher value to things they help create. Consumers value their IKEA purchases more because of the perceived value they add by assembling the products. (This doesn't explain the meatballs, but that is another discussion.)

And now to internal auditing. Successful audit departments are those that work closely with their clients, building relationships and partnering with the business. But too many internal auditors still think successful collaboration involves nothing more than talking with the client, using some aspects of their input, and moving forward with internal audit's plan. The final product is seen as a one-sided deliverable rather than a collaborative project.

Understanding the IKEA effect reveals how client buy-in can be achieved when auditors use a truly collaborative approach—one in which clients are actively engaged in building and finalizing the entire audit. This approach goes beyond a few meetings and conversations. It requires actively and honestly listening to what clients say, recognizing and using their expertise, and involving them throughout the process. Clients should feel invested at every stage, from risk assessment to audit plan to final report.

Audit reports, in particular, often fall short on collaboration. Some audit functions don't even share corrective actions with the client until they circulate a draft of the report—but they consider it a collaborative effort. Best practice involves hashing out all suggestions, discussions, and conclusions before drafting a report, let alone circulating it.

Auditors should use a similar approach throughout the entire audit process. They should provide clients a role in the construction of the report to help build a natural bias toward the final product, thereby leveraging the IKEA effect to facilitate their engagements.

Internal audit will never be IKEA. It is hard to imagine a wordless set of diagrams providing instructions on how to build an audit. But we can still make clients part of the process by giving them ownership in the final product. The approach will not only help bias the client toward that product, but more importantly it will make the entire audit better. Ia

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

IIA Calendar

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IIA CONFERENCES
www.theiia.org/conferences

NOV. 2–4
International Conference
Virtual

MARCH 16–18, 2021
General Audit Management Conference
Orlando

IIA TRAINING
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OCT. 13–16
Tools & Techniques III: Audit Manager
Livestream

OCT. 13–22
Audit Report Writing
Online

OCT. 19–30
CIA Exam Preparation – Part 2: Practice of Internal Auditing
Online

OCT. 20–23
Multiple Courses
Livestream

OCT. 20–29
Advanced Risk-based Auditing
Online

OCT. 26–29
Multiple Courses
San Antonio

NOV. 2–11
Root Cause Analysis for Internal Auditors
Online

NOV. 3–19
Tools for Lead Auditors
Online

NOV. 9–11
Leveraging & Influencing Generational Differences
Online

NOV. 10–19
The Effective Auditor: Understanding and Using Emotional Intelligence
Online

NOV. 11–20
Agile Auditing (New)
Online

NOV. 16–25
Critical Thinking in the Audit Process
Online

NOV. 16–25
Performing an Effective Quality Assessment
Online

NOV. 17–20
Multiple Courses
Las Vegas

NOV. 30–DEC. 9
Fundamentals of IT Auditing
Online

NOV. 30–DEC. 11
CIA Exam Preparation – Part 3: Business Knowledge for Internal Auditing
Online

DEC. 1–3
IT General Controls
Online

DEC. 1–4
Multiple Courses
Livestream

DEC. 1–10
Operational Auditing: Influencing Positive Change
Online

DEC. 1–17
Tools for Audit Managers
Online

DEC. 8–11
Multiple Courses
Orlando

DEC. 10–11
Data Analysis for Internal Auditors
Online

DEC. 14–23
Enterprise Risk Management: A Driver for Organizational Change
Online

DEC. 17
Fundamentals of Internal Auditing
Online

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Eye on Business

A SAFE RETURN

Organizations are working to ensure a smooth transition back to the workplace.

ELIZABETH FEALY
People Advisory Services Solutions Leader
Global Workforce Advisory Leader
EY

SAM FOGLEMAN
Global Lead Partner
Restarting America Team Member
KPMG

What are key considerations in deciding when to bring employees back to the workplace?

FEALY First, employers should consider workforce segmentation to determine which positions can effectively work remotely versus those that require a return to the office or work site. Second, employers should perform workforce sentiment analysis to gain insight into their employees' comfort levels with a physical return. For instance, our research shows that employees do want to return to the office in some capacity for social connection and collaboration with colleagues. These insights can then help organizations determine if they should offer an option to opt out from returning, and remain working from home.

Next, employers should create a phased plan for safely returning certain employees. Such plans should consider capacity, small pod areas, rotational working hours, and other adjustments that accommodate social distancing. To return employees to the workplace with confidence demands big-picture planning alongside a forensic focus down to the smallest of details, such as the cleanliness of individual surfaces on each floor of each building. Finally, organizations should be on alert for waves of outbreaks and aftershocks and have a game plan for resurgence that they should be prepared to communicate to employees.

FOGLEMAN KPMG looks at this from two perspectives: Are your employees ready to come back? And, are you ready to have them return? Determining if employees are ready to come back is a matter of looking at the community threat level (CTL)—how ready to return are the communities your employees live in and you operate in—and what is your employees' individual threat level. The individual risk estimate (IRE) evaluates each employee's risk of contracting and transmitting the infection. The CTL and the IRE are then combined to create an individual "passport" that indicates if they are ready to return.

Determining whether the organization is ready to have employees return is a matter of executing against the social, physical, behavioral, and technological changes in your playbook to make your workplaces safer in a COVID-19 environment. This is not a "one and done." Companies need a governance framework that allows them to continually monitor what is happening on the ground and to adjust what they are doing based on what is a very fluid situation.

How can companies ensure employees are returning to healthy buildings equipped to handle ongoing COVID-19 risks?

FOGLEMAN Organizations are doing two things. First, they've created comprehensive playbooks that

determine what is needed at each location to return safely and to keep their locations safe. Second, they are evaluating who needs to return full-time, who needs to return part-time, and who doesn't need to return at all. The second is as important as the first in helping create and maintain healthy buildings.

FEALY EY research found that 60% of U.S. employees cite their physical health as a top concern related to the pandemic, so health and safety should be a top priority. Organizations should consider how technology can play a role in handling ongoing COVID-19 health risks. For instance, a leading practice is to implement a holistic approach to screen, identify, trace, and respond. Requiring employee screening or testing to enter the workplace is a best practice. Additionally, rapidly identifying employees who are sick, using technology and tracers to determine the impact of infected individuals, and responding to mitigate impact by deploying appropriate interventions are key.

How should companies address the anxiety many employees feel about returning to work?

FEALY Employees need to feel confident that their safety is protected to create a trusted transition and reduce anxiety around a physical return to work. When asked about their most pressing concerns in the wake of COVID-19, employees named not only their physical health, but also their job, finances, and loved ones. Companies, therefore, must take deliberate steps to build trust by communicating and demonstrating protective measures. They will have to make a concerted effort to gather data. Sentiment surveys and assessment tools can offer insight into employee attitudes about current organizational practices. Such insight could help organizations determine where they should encourage a physical return to work or to continue to work from home and what policies and practices need to be updated to support these approaches.

FOGLEMAN The best organizations have well-thought-out and thorough plans, supported by a specific COVID-19 governance framework, and continually monitor risks and communicate with their employees in a frank way as to the status "on the ground." The reality is things are going to go wrong—community numbers are going to spike and individual outbreaks will occur at plant and office locations. Companies that have a strong governance approach and are honest and courageous about their conversations—sharing the good and the difficult—will find that they create and maintain the trust needed to reduce stress and anxiety for their employees.

How can companies recreate workspaces while maintaining a positive work environment?

FOGLEMAN We're finding that employees are experiencing cognitive overload, but still crave flexibility in their day-to-day work; that working alone is easier than working together, but that connected doesn't always equal connection. To deal with this conundrum, companies need to "focus on the work, not where you work." Creating a positive work environment that blends remote and on-premises work in a way that maintains the productivity gains we are seeing, maintains a unified workforce, and encourages the collaboration that is essential to innovation will be key both during and post-pandemic.

FEALY According to EY's Physical Return and Work Reimagined framework, succeeding in this uncertain period requires using two gears. Gear 1 focuses on transitioning employees back to physical operations; Gear 2 explores how organizations can transform for the future. Humans sit at the center of this framework, as do company purpose and culture. In some instances, planning for return to physical workspaces can represent an opportunity to reimagine a company's purpose and values. Many organizations are already thinking about these opportunities: Our research shows that 74% of employers plan to make moderate to extensive changes to their workplace real estate strategy, and 78% of employers plan to make moderate to extensive changes to their remote work strategy. By conducting sentiment studies and considering the concerns of employees, organizations can produce a positive work environment, regardless of whether it is remote or in-office.

What is the current state of regulation around organizations' liability for employee safety?

FEALY Laws differ by state and are continuously evolving. Therefore, diligently monitoring local rules and regulations is critical. Still, government regulations do not absolve companies of their responsibilities. EY's research reveals that 86% of employers plan to make moderate to extensive changes to their workplace safety strategies moving forward. Organizations recognize they have a duty to create and maintain a safe physical workplace for employees and customers, and to continuously adjust to new guidelines. An effective physical return plan must balance the external operating environment—such as regional public health developments—alongside internal capabilities that put human wellness at the center.

FOGLEMAN Organizational liability is still being debated. The broader question is: How is the organization addressing the interrelated and changing array of regulatory requirements associated with COVID-19—for example, from global, national, state, and community requirements to privacy, equal access, and health information requirements? For internal audit, key questions are: What is our exposure and how are we managing it? And, how are we gathering the various legal expertise needed to come to an organizational decision on how to best manage liability risk related to reopening? **Ia**

BY TIMOTHY J. BERICHON

AGILE REPORTING

> In lieu of audit reports, practitioners should issue and track observations as they arise.

Agile methodology offers an interesting alternative to traditional project management. It emphasizes communication, collaboration, speed, relevance, engagement, timeliness, and flexibility—all qualities I personally value. When audit practitioners began talking about using Agile techniques, I latched on right away. I attended conference sessions and webinars, in addition to reading several articles on the topic. And while I saw great utility in Agile processes, I discovered they are incompatible with the way auditors typically handle a key deliverable—the audit report. I now realize that anyone practicing Agile auditing should consider not issuing audit reports altogether.

As I learned more about Agile, I started to understand the concept of breaking audit projects into smaller pieces and allowing these pieces to move forward at their own pace. Once ready, the pieces create a backlog of work to be performed, each of which has its own definition of "done." As these pieces progress, auditors allow themselves to be flexible as they learn more.

They become more collaborative with internal stakeholders as collective uncertainty diminishes and a clearer sense of conclusion against work objectives or hypotheses is reached. Perhaps most importantly, Agile's transparent collaboration allows for near real-time communication of audit observations. That in turn enables quicker alignment on risk, root cause, and risk management approach, enhancing the organization's ability to bring risks back into tolerance. Once done, each backlog work piece is complete and communicated—and the fix, if any, is already underway.

What I am not hearing enough about from the Agile auditing pundits is how the concept of a formally issued audit report fits into this methodology. The answer is it doesn't. Waiting to consolidate audit observations from an engagement before issuing a formal report—and not communicating results to stakeholders more formally until then—seems to go against everything that is Agile. To successfully apply Agile to internal auditing, practitioners should issue and track individual observations as they surface from "done" audit work, rather than issuing formal audit reports.

Making the adjustment to a more continual reporting process enables audit work to flow as it happens. It drives much timelier work stream completion, alignment, and communication—more in line with the pace of risk—while maintaining consistency with IIA Standard 2400: Communicating Results. And it replaces what should be a nonevent anyway, since we should be looking to manage the audit process so there are no surprises at the end.

Ultimately, internal auditors should issue and track observations using alternative reporting methods—such as dashboards—that are more visual, more timely, and easier to understand. Real-time communication brings the reporting process in line with Agile, making it far more consistent with how business is conducted—and thus more relevant to the organization. Ia

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