Takeaways

• Internal Audit - What is it really ?
• A Day in the Life
• Career Pathways
• Core Skills

Interaction, Questions, Comments Welcome !!
INTERNAL AUDIT: BASICS
INTERNAL AUDIT BASICS DEFINITION (IIA)

• Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

• It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*

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**INTERNAL**

You perform audits internally within the company.

You are part of the organization and act as a department within the company as opposed to external audit where you are an external entity.
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  Independent: Not involved in the activity under review. Not part of the management hierarchy.

  Objective: Objectivity is a state of mind, it doesn’t depend on your boss. Opinions should be based on verifiable facts, viewed without bias.

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  **Assurance:** To inform the management, and through them the stakeholders, that controls are operating as expected.

  **Consulting Activity:** Your role is to provide help and guidance to your company.

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Systematic, disciplined approach:
Based on guidance issued by regulators, professional certifications, and training provided by your firm.

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Risk Management: One of the main roles of Internal Audit is to help the company manage their risks.

Control: Internal Audit helps the company to effectively manage and regulate their business environment.

Governance: Governance deals with the processes and systems by which an organization operates effectively.

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INTERNAL AUDIT BASICS

CORE ACTIVITIES

- Communicating with clarity and accuracy
- Analyzing opportunities
- Evaluating emerging technologies
- Examining global issues
- Assessing risks, controls, quality, effectiveness and efficiency
- Audit the ethics and culture of an organization

WHAT IS INTERNAL AUDITING?
• **Financial Audits**

• **Compliance Audits**
  – Determining if entities are complying with applicable laws, regulations, policies and procedures. (Ex: SOX)

• **Business Process Audits**
  – Review of operation and adequacy of controls around major business functions (i.e. payroll, accounts payable and financial reporting)
  – Determine the effectiveness and efficiency of operations. Business Process Improvement
Internal Audit Example Audits

Information Technology Audits

• Penetration/Network Vulnerability Testing
  – Evaluating security of a system using proprietary tools used to identify exploits and vulnerabilities

• Database Audits
  – Monitoring and analyzing a DB for authorization and authentication issues

• Application/Automated Controls Audit
  – Evaluating an organization's systems, practices, and operations

• Ethical Hacking Audits
  – Simulated hacker attack to break into systems/networks to identify and exploit security flaws
A Day in the Life #1
• 5000 years ago, in the Middle Kingdom of the Nile, the Pharaoh's deputy was overseeing the storage of grains. Auditing was a matter of re-performing the work of others. Auditing meant observing, counting and double-checking records.

• The processes and systems were very simple, and so was auditing.

• As the business organizations grew in size and complexity, the practice of Internal Audit also evolved.
WHAT PUT IA ON THE MAP?
"WorldCom: Who's really gonna notice $9 billion dollars anyway?"\(^1\)

What began as a routine internal audit, transformed into the discovery of the largest accounting manipulation of all time.

Worldcom, a leading telecommunications company built from over 70 acquisitions, found itself ranked at the top of its class for illegal and creative accounting practices-

Worldcom leaders successfully managed to erode the company market value from $180 billion in 1999 to approximately $350 million in 2002.

\(^1\) http://mba.tuck.dartmouth.edu/pages/faculty/syd.finkelstein/case_studies/03.html
"WorldCom: Who's really gonna notice $9 billion dollars anyway?"¹

- In June of 2002, Cynthia Cooper, VP of Internal Audit, uncovered suspicious capitalizing of line costs that had been treated as expenses in prior years. By capitalizing these expenses, Worldcom managed to "produce" profits for five quarters that would have otherwise shown loses.

- Other fraudulent accounting practices were unveiled going back to 1999. An additional $2 billion reserved for bad debts was improperly used to boost operating income.

- Accounting manipulations included inflating profit-margin figures by arbitrarily reducing line costs and maintaining fake accounts on the accounts receivables books.

- In total, Worldcom almost successfully misrepresented profits by approximately $7 billion with an additional $2 billion in question.

¹ [http://mba.tuck.dartmouth.edu/pages/faculty/syd.finkelstein/case_studies/03.html](http://mba.tuck.dartmouth.edu/pages/faculty/syd.finkelstein/case_studies/03.html)
INTERNAL AUDIT
WHATS NEXT?

- The modern practice of auditing internal control systems replaced the prior technique of re-performing every step.
- Future internal audit will incorporate even more sophisticated tools.

Drones for inventory and observations

Data Analytics Tools like ACL. Use of models to forecast future risks

Artificial intelligence to help auditors identify exceptions
INTERNAL AUDIT
WHAT IS THE CAREER PATH?

Where do I start?
- Broad range of degrees applicable (financial, operational, social studies, etc.)
- Work experience in companies (most experience is relevant)

Professional Internal Auditor
- Join a Company / Government Department
- (Directly into IA function, or through another role)
- Professional Services Firm (out-sourced IA)
- (Big Four, Smaller Firms)

Is it really a career?
- Head of IA Department
- Other key management positions in the company
- Partner in a professional services firm
CORE SKILLS – BUSINESS ACUMEN

• Develop industry specific knowledge and insight.
• Understand business financials, issues facing markets, strategy and technological development.
• Articulate how global issues are changing business. Why changes matters
CORE SKILLS – TECHNICAL COMPETENCY

• Debit & Credits of course, but its more.
• ACL, data analytics.
• Standard audit methodology, tools and techniques.
• Professional Skepticism.
• Invest in a certification.
CERTIFICATION PROGRAMS

- Certified Management Accountant (CMA)
- Certified Internal Auditor (CIA)
- Certified Public Accountant (CPA)
- Certified Information Systems Auditor (CISA)
- Certified Fraud Examiner (CFE)
- Certified Government Auditing Professional (CGAP)
- Certified Financial Services Auditor (CFSA)
• Communicate with confidence.
• Build your network thru relationships.
• Ask questions, be curious & explore.
• Play active role in industry or profession that interest you.
PROFESSIONAL ASSOCIATIONS

• Institute of Internal Auditors (IIA)
• Institute of Management Accountants (IMA)
• Association of Certified Public Accountants (AICPA)
• Information Systems and Control Association (ISACA)
• Association of Certified Fraud Examiners (ACFE)
INTERNAL AUDIT: IS IT FOR YOU?
Great Salary & Earning Potential

Chief Audit Executive
– $126,000 - $282,000

IA Manager
– $95,000 – $155,500

Internal Auditor
Up to 1 Year of Experience
– $37,500 - $69,500*

INTERNAL AUDIT
WHAT’S IN IT FOR YOU?

• Work with **multiple** clients in **diverse** industries
• Not locked into a specific audit area/function
• Exposure to **different methods** and approaches to auditing
• Exposure to high level **executives** and audit committee members
• You perform your work from various locations – **not stuck in the same office**

• Possibility to obtain **multiple certifications** (i.e., CIA, CISA, etc.)
• Travel to **fun/exciting locations**
• **Premier status** on multiple airlines and with multiple hotels
• A ton of frequent flier miles and hotel points (**free vacations**)
INTERNAL AUDIT
WHAT’S THE CATCH?

• **Frequent change** in work type and subject matter
• Hard **schedules/deadlines** (get in, get out)
• Accountable for **every hour** of work day (i.e., bill clients by the hour)
• **Challenging** work environment
• Work with and for **different people** throughout the year
• Often work and travel **alone**

• **Required** to maintain multiple certifications (i.e., CIA, CISA, CPA, etc.)
• Required training and firm policy **compliance**
• Travel to **small locations** with little to do in the evenings.
• The hotel staff knows your **name and family history**.
• Staying at **home** is a "fun" vacation.
QUESTIONS