Happy April Spokane Chapter members of the Institute of Internal Auditors! Hope everyone had a good month.

This is your official IIA Chapter newsletter, which will be coming to you on a monthly basis this chapter year. We hope the information in this newsletter will be useful in bringing relevant information to your attention, including topics such as recent news that pertains to our profession, upcoming trainings, tips, and lessons that we hope will help you in our mutual pursuit of auditing.

**In the News**

**Aligning Stakeholder Expectations With Function Capabilities Helps Drive Internal Audit To Deliver Significant Value, According To PwC (04/01/14)**

In today’s ever-changing global business scenario, where previously identified risks have increased multifold and new risks have emerged due to technological shifts. Besides, organizations are cash-strapped; new business opportunities are hard to identify or pursue; and laws are getting stringent.

Because of all these competing variables, outsourcing the internal audit department (IAD) has become a tricky decision for a company’s audit committee to take.


**Regulation demanding increased internal audit focus (03/25/14)**

The push continues for internal auditors to focus on strategic risks, but regulatory compliance duties are standing in the way, a new survey shows.

More than two-thirds (69%) of 433 internal audit professionals in the United States surveyed by Grant Thornton said regulation is increasing internal audit costs in their organization, and 36% said regulation will prevent internal audit from devoting resources to higher-value activities.

A Look Ahead…To Spokane Chapter Events

Chapter Luncheons

*Additional information on the topics and registration process will be provided on the Chapter website as well as in future communications.

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MAY 2014 LUNCHEON:

Auditing with Excel II
May 20, 2014
12:00 PM – 4:00 PM

4 HOURS OF CPE FOR ONLY $20 – box lunch included!

Stephen Hunt
Staff Auditor, AmericanWest Bank

Global Credit Union
1520 West 3rd Avenue
Spokane, WA 99201

Back by popular demand! This half-day session will focus on discovering more secrets and tricks regarding auditing with Excel.

Topics to be covered:

- Basic Excel formulas/functions
- Pivot Tables
- Benford’s Analysis
- Data Analysis
- Visual Basic (VBA)
- And MORE…

Sign up on our Eventbrite site prior to 05/12/2014:
https://www.eventbrite.com/e/auditing-with-excel-ii-tickets-10946676805

About the Presenter

Stephen Hunt joined AmericanWest Bank in 2010 and currently serves as a Staff Auditor in their Internal Audit Department, where he is assigned operational, financial, and information technology audits. Prior to joining AmericanWest Bank, Stephen’s previous roles included technical support for management and other employees at various employers, as well as for students and staff at a local university.
Mr. Hunt is a graduate of Eastern Washington University (EWU) with a Bachelor of Arts in Management Information Systems and Business Management. He sat for, and passed, all advanced Microsoft Excel classes offered at the university, along with other advanced information technology classes. His efforts at the university included a project in which he co-led a team to create a web-based Point of Sale system for a local non-profit theatre, coding it from scratch. Stephen has a working knowledge of various computer programming languages such as VBA, SQL, HTML, PHP, JAVA, and others.

Stephen currently serves as the Newsletter Editor for the Spokane chapter of the Institute of Internal Auditors (IIA).

**Other Training Events**

**IIA Members-only webinars:**

Keeping the Risk Universe Current (04/08/214)

Assessing Organizational Governance in the Private Sector (04/09/2014)

Does Your Organization Measure Up? What Are You Doing to Help? (04/09/2014)

Roles and Responsibilities With Fraud (04/16/2014)

Lessons Learned on the Audit Trail (05/13/2014)

Internal Audit Role in Ethics, Governance, and Culture (05/14/2014)

Becoming a More Strategic Internal Auditor (06/17/2013)

Pulse of the Profession (06/15/2014)

Risks Around Social Media (08/19/2014)

Master Data: Best Practices and New Challenges for Internal Auditors (11/18/2014)

**On-demand 24/7 Webinar Playback**

One benefit of being an IIA member is having access to an extensive library of archived webinars.

**NOTE:** On-demand webinars do not qualify for NASBA CPEs.

Click HERE for additional details on these members-only webinars from the IIA.
Chapter Announcements

Contact Stephen Hunt, Newsletter Editor, at Stephen.Hunt@awbank.net to include an announcement in an upcoming IIA Chapter Newsletter.

WE NEED YOU TO VOLUNTEER!!

Each month, the Institute of Internal Auditors Spokane Chapter works behind the scenes to plan training and other events that help develop you, our members. In order to accomplish this important objective, we need help from people like you!

We are currently looking for volunteers to fill many roles within the organization, including officer positions and others simply to help us with our training events. This is a great way to network and meet new people from other organizations, improve your own audit knowledge, and have fun in the profession. Plus, volunteering for the IIA also looks great on your resume!

Please contact Stephen Hunt at Stephen.Hunt@awbank.net or another member of the board if you are interested in volunteering.
Have luncheon topic or training ideas?
Please contact Stephen Hunt at Stephen.Hunt@awbank.net.

IIA Newsletter articles or comments?
Please contact Stephen Hunt via phone, (509) 434-3771,
or email, at Stephen.Hunt@awbank.net.

A valuable resource from the IIA is the new CIA Learning System Self-Study manuals. The Learning System is a comprehensive training course designed to provide chapters, members, and the audit community of professionals with information and tools to master the global exam syllabus. These tools can be purchased on the Institute of Internal Auditor’s site:
https://store.partnerrc.com/IIA/chapters

IIA Chapter Members can save an additional $100!
Chapter 138 Officers 2013-2014

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Back to Basics

Sometimes it’s good to get back to the basics of something we do every day. In this section of the newsletter we will review some of the basic skills and practices that internal auditors use on a daily basis. This month’s topic is on Internal Controls and Business Risk, as presented in the IIA’s A Guide for the New Auditor*.

Internal Control and Business Risk

Among the most exciting developments in the field of internal auditing has been the linking of the concept of internal control to that of achieving business objectives. COSO very clearly forges this link defining internal control essentially as the means by which managers assure that business objectives (economy and effectiveness, compliance, financial reporting) are achieved. This has broadened the internal audit scope of activity to business goals rather than just accounting or financial reporting goals as it had been previously.

As with everything, however, there must be balance. A key philosophy generally accepted by managers and auditors is the idea that the cost of controls should be less than the benefit the controls provide to the business. While this is easy to state, it is notoriously difficult to apply and measure.

To grasp this philosophy and apply it in day-to-day activities, we must understand two concepts: business risk and risk limits.

Business Risk

Fundamentally, business is risk. Resources are put at risk in anticipation of a return on the investment. Rarely is the probability of success 100%. In terms of COSO, business risk is the risk that the business will not:

- Operate effectively or efficiently,
- Comply with statutory requirements, or
- Accurately report financial information.

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Within these three pervasive business risks we could define many risks specific to an organization, function, process, etc. for example, we might identify a business risk for our accounts payable function as failure to pay invoices accurately. Such a failure, if significant, could result in overpayments, vendor distrust and dissatisfaction, misstatement of financial results, and liability arising from noncompliance with contractual commitments. A measure of this risk might be the rate of errors in payment expressed as a percentage of total dollars paid.

**Risk Limits**

Reasonable people will disagree on what is an acceptable business risk. For example, one manager may feel that a 1/2% error rate is excessive while another might be willing to accept an error rate of 1 1/2%. Risk limits represent the range of risk acceptable to the managers accountable for controlling the risk given the related costs to control the risk. Perhaps the accounts payable manager agrees that an acceptable risk limit is an error rate between 1/2% and 1 1/2%. This would mean that as long as a periodic sample of payments indicates an error rate within these limits, the controls being applied are considered adequate. If the rate consistently exceeds 1 1/2% then the control structure needs to be evaluated for effectiveness. If on the other hand the rate consistency is below 1/2%, the control structure should be evaluated for efficiency; perhaps controls are too tight.

These two concepts – business risk and risk limits – form the basis for establishing and monitoring internal controls and are key concepts for auditors to keep in mind as they perform their reviews.

**Management Perspective**

Defining the internal auditor’s perspective on internal control has been made relatively easy by COSO and the *Standards for the Professional Practice of Internal Auditing*. Understanding the perspective of management is more difficult since there is an even greater range of opinions, viewpoints, and terminology. Ideally, the management perspective will align very well with that used by internal auditors. In reality, management may see the role of internal auditors in a different light than the internal auditors see themselves.

In a study performed for the IIA, managers (CFOs, CEOs, audit committee members, and operating managers) identified the top two benefits of an internal audit function as

1) Evaluating the adequacy of internal controls, and
2) Safeguarding assets/improvement of internal controls.
On its surface, this expectation appears in agreement with the views of many internal auditors. However, managers may define internal controls differently than internal auditors do. More importantly, managers may restrict the role of internal auditors to evaluating internal controls over traditional areas like accounting and finance rather than the broader scope contemplated by COSO.

Managers may not recognize that internal controls are the actions they take to ensure business goals are achieved. These actions may include establishing hiring policies; providing training; establishing operating policies and procedures; establishing objectives and goals; organizing staff, supervisors and managers; and more.

Since the consensus definition of internal control presented by COSO has not extensively pervaded the ranks of management, there is still a wide range of management perspectives regarding the role of the internal auditor.

Two popular perspectives held by managers might be the following:

**Police:** Internal auditors may be regarded by managers as internal police. In this view the internal auditor is a “necessary evil” whose role is to audit for compliance with existing policies and regulations and report failures in compliance. This perspective has little to recommend it. While compliance auditing has its place, a narrowly focused compliance audit adds little additional value to the organization. It rarely improves efficiency or internal control; moreover, the “looking for flaws” audit approach does not engender much cooperation or support from those whose flaws may be identified.

**Consultant:** The opposite pole from being viewed as police is being viewed as consultants assisting management in accomplishing their business objectives. In this view, the operating manager is the “customer” for the audit work performed by the internal auditor. While this is a role sought after by many internal auditors, carried to its extreme it can result in the loss of independence and ultimately may result in ineffectiveness of the internal audit function in performing its basic mission of independently apprising management of the effectiveness of its system of internal control.

So what do managers think of internal auditors? The Albrecht study’ suggests managers place internal auditors closer to the “police” end of the scale rather than the “consultant” end. The changing of this perspective is a major challenge for internal auditors. Many effective managers look to internal auditors to assist them in achieving their business objectives in the following ways:

- Reviewing existing controls and apprising management of their adequacy to achieve business objectives and the degree of compliance with established control procedures.
• Performing special audits, reviews, and analyses to assist managers in their decision making process.
• Providing resources to assist in revising existing processes to improve their efficiency and effectiveness.

Internal auditors must continue to work toward improving the management view of their role. Through education and example, the value added to the organization by internal auditing efforts can be increased without compromising the effectiveness of the function.

Ensure Audit Success
Internal auditors can do much to enhance their own success by doing the following:

Make and take advantage of opportunities to sell the value of the internal audit function to operating management, senior management, and the board of directors. This can be done by being responsive to the needs and requests of managers, keeping them informed of the purpose and benefits of audit work being performed, and reporting clearly the value-added results of the audit efforts.

Communicate “early and often” with affected management on the status of your work; whom you are talking with; and the results, findings, and opinions you are developing. Surprising management never leaves a good impression.

As always, have a great month, and Happy Auditing!

- Your Spokane Institute of Internal Auditors Officers