Happy June 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

Audit finds fault with Evergreen school district (05/28/2014)
An audit report made public Tuesday by the Washington State Auditor’s Office noted that Evergreen Public Schools had conditions significant enough to report as findings. The audit was for the 2012-2013 school year.

SDPD requests internal audit to find $1 million seized from criminals (05/23/2014)
The San Diego Police Department sought an audit to determine what happened to $1 million seized from drug runners and other criminals.

Audit: Washington Welfare benefits going to dead people (05/22/2014)
Food stamp benefits continue to be paid to thousands of deceased Washington citizens, according to the state auditor’s office.

Internal Auditors More Focused on Technology to Protect Against Risks (05/08/2014)
According to the 2014 Internal Audit Capabilities and Needs Survey Report released recently by global consulting firm Protiviti, Internal auditors’ priorities are to better navigate social media risks, leverage technology to improve the audit process, and collaborate more with business partners to address organizational risks.
http://www.s-ox.com/dsp_getNewsDetails.cfm?CID=3481
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.

No Chapter Luncheons are planned during the 2014 summer months. Check back later for details on our fall luncheons.

September 2014 – TBD
October 2014 – TBD
November 2014 - TBD

Other Training Events

IIA Members-only webinars:

Hot Topics in Compliance: Auditing Stress Testing and CCAR (06/12/2014)
Becoming a More Strategic Internal Auditor (06/17/2013)
Pulse of the Profession (06/15/2014)
Risks Around Social Media (08/19/2014)
Internal Audit – the World’s Greatest Profession (10/02/2014)
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, at Stephen.Hunt@awbank.net to include an announcement in an upcoming IIA Chapter Newsletter.

Job Postings:

Global Credit Union
Internal Auditor
Spokane

Apply online at www.globalcu.org or send resume to hr@globalcu.org

Volunteer Opportunity:

Calling all Certified Fraud Examiners (CFEs) –

The Gonzaga Justice for Fraud Victims Project (JFVP) is looking for two CFE mentors during its fall semester. The Justice for Fraud Victims Project (JFVP) is a joint partnership of state, local, and federal law enforcement officials, local Certified Fraud Examiners (CFEs), and Gonzaga University students and faculty formed to assist victims of fraud in the Inland Northwest.

The fall semester runs from 9/2/14 through 12/19/14, with classes currently scheduled for Thursday evenings. Mentors typically meet with a student group for 1-2 hours each week during that class time. JFVP mentors must be CFEs.

Interested candidates should contact Lenore Romney at lenorer@hmacpa.com.
IDEAS NEEDED!

We are currently looking for ideas for next year’s luncheons. If you have an idea for a topic you’d like to learn more about, or if you know of a speaker that would be beneficial to hear from, please contact us!

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!
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 Part 1 of Internal Audit Philosophy, as presented by Lawrence B. Sawyer in the IIA’s Sawyer’s Words of Wisdom.

Internal Audit Philosophy

1. Leave every place a little better than you found it.

Just what is internal auditing supposed to do? The pat sayings we’ve heard over the years have offered explanations, but they haven’t really hit the target. Some have been entirely pejorative, like “wandering around the battlefield to bayonet the wounded.”

Others are a little kinder, like being “the eyes and ears of management.” I have used that, but I’ve never really liked it because it smacks of spying. The maxim is true in some ways because modern internal auditing is an extension of executive management. We seek to learn top management needs and whether its subordinates are meeting those needs. But the saying doesn’t ring out with a sound that lifts any spirits.

Going beyond the spy-tinged definition we come to this: doing what the president of the company or the director of the government agency would do if he or she had the time and knew how. That is certainly on a higher plane. It puts the internal auditor on a level with executive management. It avoids the idea of nitpicking, because no competent executive reviewing an operation would waste time on insignificant defects. But again, this concept doesn’t have a high-minded resonance. It seems to focus on finding and correcting defects. That is what we do, of course. That is what people usually expect of us. But is it the be-all and end-all of our profession?

I think not; and so I came up with the thought of “making the manager look good.” I liked that because it implied helping operating and executive managers correct defects and letting them take the credit. Now that is certainly a noble thought. But as I pondered over the words, it occurred to me that I was concentrating on the manager and not on the people. And that is why I decided that the highest form of mission statement I could apply to internal auditing is this: “To leave every place a little better than I found it.”

I think that tells the story. It has a noble purpose. It applies to any situation. If you make operations more efficient, you’ve certainly left the place and the people better. If you have found a fraudulent condition and helped correct it, you’ve left the place better. If you find a defect and obtain corrective action the same is true. And if you have given the operating manager credit for the improvements, you’ve certainly made both the condition and the manager better. So as I got older and wiser, that is what I tried for in every audit I performed: to leave every place a little better than I found it.

2. You can't stomp your foot when you are on your knees.

Without the necessary authority, all the noble attempts to leave every place a little better are but idle dreams. When internal auditors stomp their feet, the sound must resonate throughout the enterprise. But it just won't happen without support from executive management and the Board of Directors, or without a reporting level in the enterprise that commands respect.

The support must be visible and potent. The first step in that direction is a charter signed by the CEO and approved by the Board. It must give the internal auditor access to all documents, properties, and people connected with ongoing audits. It must give the internal auditor status in the organization. And it must state clearly that audit findings and recommendations must be given proper consideration.

Auditors must also develop a reputation that proclaims that they know what they are doing...that their reviews are factual and unbiased...that they deserve to be respected...that they are professionals with professional designations.

A key to all of this is the reputation for objectivity. That implies independence from activities reviewed. Complete independence is an unattainable goal. After all, executives of the enterprise pay the auditors and support the audit activity. But practical independence is possible and essential. And this helps bring respect for the internal auditors. But there is one further step needed to make respect real. That is fear.
Ironically enough, harmonious relations with clients must be rooted in the perception that internal auditing has the power to do harm: power, not inclination. The harm can be inflicted by bringing operating defects to the attention of executive management and the Board or by reporting on excessive delays in correcting reported defects. Clients should be aware of that power, because power breeds respect.

This power should be exercised rarely, however. After all, if we enhance a manager we have made a friend. If we diminish that manager we have made not only a mistake but an enemy as well. The street smarts that wise internal auditors develop tell them when to use honey and when to use acid. But the power to pour acid, even though it is withheld, commands respect. People who are respected will be heeded when they stomp their feet.

3. Know the Objectives

For every operation audited know the mission…the purpose…the reason for being. However you say it and in whatever language you articulate it, the first step in a comprehensive audit is to know the objective of the company, of the division, of the department, and of the activity or function that is being audited.

At this point I am talking about much more than just the operating objectives. And identifying those fundamental objectives, getting to the essence of the mission, is not all that easy. The objectives identified will govern the course of the audit that follows and will dictate the audit objectives.

For example, consider the case of the elderly man who was shuffling along on a country path when he heard a voice behind him calling for him to stop. Turning around he saw only a frog in the path. But as he turned back, the frog said quite clearly, “I am not a frog, but a beautiful princess under a spell. Kiss me and I shall return to my former shape and beauty.”

The old man picked up the frog and put it in his pocket, continuing on his walk. “Wait,” called out the frog, “Kiss me and I will treat you to an experience beyond all your exotic fantasies.” The old man took the frog out of his pocket, looked at it, and returned it to his pocket. “Please,” called out the frog, “Can’t you realize the joys I can bring if you give me but one kiss?”

The old man took the frog out of his pocket again and said, “Look princess, at my age I’d rather have a talking frog.” Know their objectives and you know what drives the people or the activities you are dealing with.
4. Nothing ever happens until somebody sells something.

Whether they like it or not, internal auditors are regarded as critics. Nobody ever raised a statue to a critic. But the ability to criticize wisely and motivate people to improve is essential to the internal audit job.

What is rammed down somebody’s throat is often given back. The sugar coated pill is more palatable than bitter medicine, and so internal auditors have a selling job to do. Their job is not done until defects are corrected and remain corrected. The trick is convincing people that they want to correct the defects.

That takes selling. And the salesmanship goes on from the moment the auditors step into the audit site until the moment they judge corrective action both adequate and effective.

5. Every deficiency is rooted in the violation of some principle of good management.

Dr. Gibbon of Pace University once asked Peter Drucker, a famed management consultant, “Is it true that you once said that no more than three percent to five percent of all businesses in the United States are well-managed?” To this Drucker replied, “Heavens, I must have been optimistic that day.”

With the dearth of good managers in the workplace, it behooves internal auditors to fill in the gaps wherever and whenever they can. One way is through education. It is the kind of education that cannot be too open and certainly not patronizing. It is most effective when the education relates to a condition or incident that directly concerns the work being audited.

The most appropriate time is during the discussion of defects the auditors find and the means of correcting them. In my experience, every defect I ever encountered could be traced to the violation of a principle of good management. And this is where the discussion of the violation and the means of correcting the defect can be most effective.

The old method of telling people to work better or harder was never successful; but getting to the root cause, he violation of principles of good business practice, actually did the trick.

Some clients may consider it outside the scope for internal auditing to apply management principles in their audits. That is why it is important for the internal audit charter to show that internal auditors are authorized to determine not only if functions are carried out in accordance with the organization’s policies and procedures, but also in accordance with good administrative
practices. Then auditors will be free to search for the management principle violated when seeking to obtain corrective action that will be effective, completed, and continuing.

(To be continued…) 

We hope you’ve enjoyed this month’s “Back to Basics” article. Have a great month, and Happy Auditing!

- Your Spokane Institute of Internal Auditors Officers