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IIA Vancouver Island Chapter – "We are blogging too".
Fraud, Abuse, and Corruption

I hope the Wells Fargo scam is causing boards, executives, and practitioners everywhere to pause and reflect: Could something like this happen to us?

If it can happen at a great institution like Wells Fargo, it can probably happen anywhere.

I have shared questions that boards and others should be asking in a couple of posts. They cover issues such as management setting incentive goals that don't appear to be aligned with driving revenue or earnings, why the controls to ensure customers approved the opening of accounts in their name failed, why customer complaints did not lead to identification of the problem, why this was allowed to continue for at least five years, whether management had any idea that the culture of the organization would permit such a pervasive scheme, the role of internal audit, the role of the compliance officer, the effectiveness of whistleblower provisions, and the role of risk management.

In a podcast with MIS Training Institute (which I recommend), I made another point. I think this is critical for everybody to understand.

I said that when people feel they are able to get away with a minor fraud, they will do something else. The level of fraud may start small but it almost always increases.

I asked what else has been happening at Wells Fargo.

**********

The public reaction by the Wells Fargo CEO, John Stumpf, included an observation that the scam only involved at any time about 1,000 people of the 100,000 in the branch network.

Let's set aside the fact that 5,300 people were fired over a period of five years and this number does not include anybody who was less severely disciplined or not caught.

Let's set aside the fact that 1,000 people fired in each of the last five years reflects a continuing failure and, to me, indicates a breakdown rather than a one-time failure in controls.

The point is that he seems to believe that this is a small level of incidence, almost (in my words) an acceptable level of risk.

I am drawn to agree that this is a low level of failure. I'm not sure it is so low that it would be acceptable.

Let's talk reality.
While it looks and sounds good to say that an organization has zero tolerance for fraud, corruption, and a failure to comply with laws and regulations, that zero level is just about impossible to achieve.

You would need somebody looking over everybody's shoulder all the time to ensure no inappropriate activity was happening, and somebody looking over that person's shoulder to make sure they were watching properly.

All you can do is have what a prudent person would believe is a reasonable level of control, given the level of risk to the organization of fraud.

According to studies by the Association of Certified Fraud Examiners, the typical company loses about 6 percent of its annual revenue to fraud. That number includes theft of time, personal use of the company's laptop, and so on.

Is that an acceptable level? Maybe it is; maybe it isn't. You decide for your company — and consider the cost of reducing the level of fraud risk. Is the cost greater than any reduction in fraud risk?

The same goes for compliance issues or the activity reported at Wells Fargo. Was a reasonable level of control in place? Could controls have been improved to reduce the risk without incurring substantial cost? I suspect the answer is yes, but we don't know enough of the facts yet.

**********

But let's also consider other forms of fraud, abuse, and corruption.

Are these acceptable practices, or are they another form of fraud?

- The CEO of a multi-billion-dollar company approves the funding of a charity of which his wife is the chair. There is no clear benefit to the company, no link to its operations.
- In response to falling revenue and profits, the CEO of another company lays off about 10 percent of the workforce. The board awards him a US$1 million dollar bonus for completing the reduction in force. At the same time, the CEO spends US$1 million dollars to renovate the executive suite of offices.
- A senior manager in IT refuses to provide support for the implementation of a disaster recovery plan because it is not included in his personal objectives.
- The vice president of procurement for Malaysia refuses to follow instructions from the executive vice president (EVP) of procurement (to whom she does not report) and adhere to global contracts with major vendors negotiated by that EVP. Instead, she negotiates successfully with the local subsidiaries of those vendors. While she obtains better prices for Malaysia (for which she and her boss, the president of that region, are rewarded) she puts the corporate contract in serious jeopardy.
- A senior executive decides to hire a friend.
- The chairman of the board puts pressure on the company to select as a director an individual whom he knows will vote his way rather than searching for a director who will add critical expertise.

All of these are situations where, in my view, individuals put their personal interests ahead of those of the enterprise as a whole.
They act in a way that brings them rewards but that negatively affects the company as a whole.

While technically they have not stolen and have not broken any laws, they have acted inappropriately. I will let you decide what to call their behavior.

But let's be honest: Self-dealing is ripe around the world. Very few are selfless, putting the interests of others ahead of their own.

**********

So what does this all mean? Where am I going?
1. What we have seen at Wells Fargo (based on the few facts we know) is, in some ways, normal human behavior. When people believe that the behavior is encouraged or at least not discouraged and that they will not be caught, they will "game" the system.
2. While we focus on fraud, we might be better off focusing on behavior and actions. There are many forms of behavior that will negatively affect the organization.
3. We cannot prevent or even detect all actions that result in a loss to the organization. We need to understand all of its forms, the impact and likelihood of each, and ensure that we have the controls in place that provide a reasonable level of assurance that risk is at acceptable levels.
4. Management must take ownership of the design and operation of those controls.
5. Internal audit should provide assurance on the management of the more significant risks.
6. When the level of risk that the controls are failing rises, the root causes must be investigated.
7. A low level of fraud, if left alone, will normally grow until it is unacceptable.

I welcome your views.

Norman Marks

Norman Marks, CRMA, CPA, was a CAE and chief risk officer at major global corporations for more than 20 years. The views expressed in Marks on Governance are his personal views and may not represent those of The IIA.
New Industry Report from TeamMate®

Who owns responsibility for the technology tools used by your audit department?

If you can’t answer that, you may be falling behind. The latest research survey from TeamMate focuses on Technology Champions and the significant positive impact they can have on audit departments.

80% of those surveyed view Technology Champions as a key success factor for their organization.

36% of CAEs see Technology Champions as a Key Strategic Player in Audit Management.

View a copy of our latest report at: TeamMateSolutions.com/TechChamp
IIA HQ and IIAC provide free monthly webinars. Click here for upcoming sessions or follow the links below to register for IIA HQ or IIA Canada free webinars (many are Members Only).

18-October-2016 Leveraging Data to Manage Your Fraud Risk
20-October-2016 EHS and Internal Audit: A Natural Partnership
15-November-2016: Auditing at the Speed of Risk

... The IIA and IIAC are busy working on webinars for the new year

Don’t Forget! 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 on AUDIT CHANNEL.tv above, relax and enjoy some quality and empowering TV, including:

Application Testing: Not Just for IT Auditors, Pt 1
Richard Fowler, senior audit specialist at Huntington Ingalls Industries, discusses application controls and “easy wins” for auditors just now venturing into the waters of IT auditing.

New Security Controls to Fight Modern Threats, Pt 1
In this three-part series, RSM US LLP’s Daimon Geopfert discusses the evolution of cyber infiltrators; the perspective of an organization’s board; adoption of best practices for insurance purposes; and accountability in the public vs. private sector on security issues.

Short-term CAEs Can Create Long Term Risks
In his latest video blog, IIA Chairman and CEO Richard Chambers shares a list of risks and challenges associated with short-tenure tenures for CAEs. The growing use of rotational CAEs creates potential long-term risks that audit committees and management should carefully consider when adopting a rotational CAE model.

Internal Audit - The Path to a Rewarding Career Choice
Three “Gen Y” auditors, Robert Pettit, Robin Brown, and Sean Milne, CIA, chat with The IIA’s Heather Pesch on their aspirations to advance in the internal audit profession and the challenges they face.
THIS MONTH’S FEATURE:

A New Auditor's Guide to Planning, Performing, and Presenting IT Audits

The ever evolving of internet technology requires internal auditors to be nimble, while staying up-to-date by delving into IT research. This book serves as a handy reference that will guide internal auditors through the process.

Information technology (IT) is a highly dynamic and rapidly changing environment. IT auditors are expected to stay current with the latest tools, technologies, and trends, and may need to do additional research to prepare for specific audits.

Designed to help aspiring and active internal auditors take a step back and understand the general process and activities involved in conducting an audit around technology A New Auditor's Guide to Planning, Performing, and Presenting IT Audits is primarily based on:

- The IIA’s International Professional Practices Framework (IPPF)
- The IIA's Global Technology Audit Guides (GTAGs)
- ISACA's IS Guidelines, Standards, and Procedures
- Guidance issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)
- Other relevant recognized industry standards and organizations

Through its use of a simplified four-layer technology model of networks, operating systems, databases, and applications, this book provides easily understandable concepts of the technology environment that can be applied in most organizations with little modification.

Download your copy at reduced member rates now
Internal Auditor Magazine Scholarships

Internal Auditor will offer six, $1,000 essay scholarships throughout 2016. Essay questions will be based on the current Internal Auditor issue, and winners will be chosen by a volunteer subcommittee from the Publications Advisory Committee. The students who write the most informative and intuitive essays on internal audit subjects will be selected as the winner. Winning essays will be published on InternalAuditor.org and reference both the chapter and university with which the winner is associated. In addition, the three finalists for each scholarship will be given a free, one-year student membership to The Institute of Internal Auditors. Scholarship winners will be notified within the month following the application period.

Students will download the scholarship application form to get started. Once they have completed their essay, they will submit both the completed application form and their essay to Scholarship@theiia.org.

The scholarship essay topics and submission periods are as follows:

**October 2016 – 30 November 2016:**
How can internal auditors work with the second line of defense when conducting compliance risk assessments?

**December 2016 – 31 January 2017:**
How can internal auditors best communicate difficult findings/messages to their customers and stakeholders?

The IIA’s Academic Relations Program

For decades, The IIA has been committed to Academic Relations by providing dedicated staffing and volunteer support. As the profession evolved, so did the needs of the academic community for “internal audit-ready” graduates to enter the business arena and meet the demand for graduates with a reduced learning curve.
Welcome New Members!

Our Chapter is pleased to welcome the following new or returning members.

- Martha Thomas

IIA VI Chapter Provincial Government Group Membership

Are you a provincial government employee but **not** part of a group at renewals time (i.e. renewals are not managed by your office - you renew individually and claim for reimbursement, or not)? If so, you may wish to consider joining the IIA Vancouver Island Government Group.

We will ask you to fill out the membership form, but will not submit the form until close to your renewal time (a few weeks in advance), Then when we get invoiced, we will be able to let you know how much of a **saving** has been achieved. Hopefully you wont be renewed by your office in the middle of the process, but then there’s always next year.

**Save Money?**

Yes, there is a form to complete and an alignment of your renewal to November 30th each year, but you benefit from discounted membership fees. Right now, the discount is **$40USD** per year; and will stay that way if we can maintain a minimum of 25 members in the group. Your membership will be pro-rated for renewal through our registration site every November.

We will also reach out to you closer to your renewal time if we determine that you might be interested in this group. Note that in most cases we don’t know how your membership is paid for so feel free to reach out to us first.

For more details, please contact our Membership & Marketing Chair at **Shaun.Price@forces.gc.ca**.
### OCTOBER 2016 – April 2017

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Type</th>
<th>Topic</th>
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<tbody>
<tr>
<td>October 21</td>
<td>Full Day (8 CPE) Conference</td>
<td>Annual Fraud Program</td>
</tr>
<tr>
<td>November 17</td>
<td>Luncheon (1.5 CPE) (12:00-2:00)</td>
<td>Governance and Challenges in Sewage</td>
</tr>
<tr>
<td>January 19</td>
<td>Luncheon (1.5 CPE) (12:00-2:00)</td>
<td>Change Management (TBC)</td>
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<tr>
<td>February 16</td>
<td>Luncheon (1.5 CPE) (12:00-2:00)</td>
<td>Dual Role of the Coach (TBC)</td>
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<tr>
<td>March 16</td>
<td>Luncheon (1.5 CPE) (12:00-2:00)</td>
<td>Economic Outlook Risks (TBC)</td>
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<tr>
<td>April 24-25</td>
<td>Two Day Workshop</td>
<td>Performance Management (TBC)</td>
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All events are held at the Union Club of BC, 805 Gordon Street
For registration to any of the above, or more information on upcoming events
Go to Institute of Internal Auditors Vancouver Island Chapter.

### Progress Through Sharing

We always welcome your contributions through offers of articles for our newsletter or presentations to our membership. Remember, developing and publishing an article or preparing and delivering a presentation also earns you CPE in support of your annual certification requirements.

We are looking for both a topic and a suggested speaker for our November event. Do you have a topic you would like to bring to our membership. Contact gtranter@uvic.ca to volunteer and schedule your presentation.
Governance and Challenges on the Victoria Sewage Project

Speaker: Brenda Eaton, Corporate Director, Management Consultant.

When: Thursday, November 17, 2016 from 12:00 to 2:00 (1.5 CPE hours)

Where: Begbie Lounge, The Union Club of BC, 805 Gordon Street, Victoria

Price: $30 for IIA, ICD, ISACA, CPA, FMI, ACFE members / $35 for non-members

Agenda:
11:45-12:00 Registration
12:00-12:30 Lunch and networking
12:30-1:45 Presentations with Q&A Session

Registration for this event is now open until Sunday, November 13th
https://www.gifttool.com/registrar/ShowEventDetails?ID=1902&EID=23080

Overview: Project Boards are unusual structures, with particular governance challenges. Clearly delineating roles and responsibilities is critical -- and just the beginning of a myriad of complicated issues that follow.

Brenda Eaton has been involved in several project boards including structures at Island Health, transportation projects at Translink, and the recently approved sewage treatment plan for the core municipalities of Greater Victoria.

Join us to hear Brenda’s observations and insights on this challenging topic.

Who Should Attend: This topic is appropriate for Corporate Directors, Business Managers, Board Members and Internal Auditors alike.

About The Speaker: Brenda Eaton is an experienced corporate director, having served for more than ten years on a number of private, public, not-for-profit and crown corporation Boards. She is currently on the Boards of FortisBC (Chair, Audit); Translink (Chair, Risk and Capital Projects), BC Safety Authority (Chair, Strategic Advisory), Transelec (Chair, Regulation and Corporate Reputation), and the Project Board charged with constructing Victoria’s new sewage treatment facility. For seven years Brenda was Chair of BC Housing, and of the Dalai Lama Center for Peace and Education, and she has also served on the Boards of BC Hydro, a trustee’d pension plan, a venture capital fund and a variety of other diverse organizations.

Prior to becoming a corporate director Brenda worked in the energy and finance sectors. From 2001-2005 Brenda was Deputy Minister to Premier Gordon Campbell. For several years she was CFO of the Capital Health Region. For the decade prior to joining the CHR,

Ms. Eaton served in a variety of senior management positions in the Government of British Columbia, including Deputy Minister of Finance and Treasury Board; Social Services; and Energy, Mines and Petroleum Resources.

Brenda has a Master’s Degree in Economics, is the recipient of several recognition awards and a regular speaker on governance and leadership. She is an avid reader and adventure traveller.
“The Managers in the Finance department were pleasantly surprised at the power and capacity of IDEA®, so much so that they explored using the tool. The software has created a reputation for itself within our organization and helped me to become more of a trusted advisor to the business, which is always my ultimate goal.”
IIA CIA Learning System

The IIA’s CIA Learning System is a comprehensive print and online CIA review program that will prepare you to pass the CIA exam.

A French version of the program is also available.

For more information on IIA’s CIA Learning System click on the logo to the bottom left.

But before you purchase, read on...

Your IIA Vancouver Island Chapter is pleased to assist members interested in obtaining the globally recognized CIA designation through providing IIA’s CIA Learning System at significantly lower prices:

• Full Kit: 3-Part Exam, CAD$925* (New!)
• Individual Part, CAD $400* (New!)

Note: * All inclusive. Subject to change without notice. Prices for non-members are also available.

This offer represents significant savings from the regular prices offered directly through the IIA.

For more information and to purchase your IIA’s CIA Learning System, please go to the following link.

The IIA’s CIA Learning System - Order/Payment Site

The IIA’s Certified Internal Auditor® (CIA®) certification is the only globally accepted designation for internal auditors. It is a four-part exam that remains the standard by which individuals demonstrate their comprehensive competence and professionalism in the internal auditing field.

In response to market demand for premier quality global CIA exam preparation, The IIA has developed The IIA’s CIA Learning System™.
IIA Certification: Financial Support

To support our chapter members in their pursuit of IIA Certification(s), the chapter will provide financial support to the successful candidates who meet the following criteria.

1. All exam and application fees were personally funded.
2. All eligibility requirements were met and passed the exam(s).
3. Be a good standing member when the certification is awarded.

Each successful candidate will receive $100. A limit of 5 successful candidates has been set up for each fiscal year.

Gleim CIA Study Material Discount

In addition to the discounts on IIA’s CIA Learning System, we are proud to offer significant discounts on Gleim’s CIA Study Materials for our chapter members.

As a chapter member, you can get a 20% discount on Gleim’s CIA exam prep products. Please visit the Members Only section of the IIA Vancouver Island website.

We would like to hear from you. Any comment or suggestion on how we can support you for earning IIA Certifications?

Certification Spotlight

Tell us your story on your journey to certification and we will publish it in our next newsletter. Share your experience!

What certification did you achieve and when?
What prompted you to become certified?
How did you prepare for the exam?
How has certification helped your career?
What advice do you have for others seeking certification?

Answer these questions along with a professional bio and picture to The Connector editor at gtranter@uvic.ca to earn your page on our bi-monthly newsletter.

This year (2016), your Vancouver Island Chapter was again awarded the IIA Chapter of Excellence, through the chapter’s support of the CIA designation, including access to reduced costs for the IIA’s CIA Learning System program.
Your Chapter Report

The IIA Vancouver Island Chapter has 101 Members
Sharing the following certifications

<table>
<thead>
<tr>
<th>Service Category</th>
<th>Required CAP Points</th>
<th>Achieved CAP</th>
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<tbody>
<tr>
<td>Service to Members</td>
<td>325</td>
<td>101.68</td>
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<tr>
<td>Service to the Profession</td>
<td>200</td>
<td>582.64</td>
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<tr>
<td>Chapter Administration</td>
<td>160</td>
<td>140.00</td>
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<tr>
<td>Total</td>
<td>(Bronze at) 685</td>
<td>824.32</td>
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In 2015-2016 we achieved GOLD Status for the 9th consecutive year. We need to do this one more time in the next two years to attain PLATINUM status. Following is our 2016-2017 status as at July 31st, 2016.

We need to pass a 1,560 point target for GOLD status. Additionally, we need to attain the minimum required CAP points in each service category. We must attain both the minimums in each service category and an overall point total. We are only able to do this by continuously striving to bring you events, information, and the support you need or want for your professional growth.

Thank you to all our members who support the Chapter through attending events, suggesting topics and speakers, contributing newsletter articles, presenting to the chapter, answering our surveys, and supporting the Internal Audit Profession.
<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Organization</th>
<th>Contact</th>
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</thead>
<tbody>
<tr>
<td>President</td>
<td>Graham Tranter, CIA, CFE, CRMA, CISA, CCSA</td>
<td>University of Victoria</td>
<td><a href="mailto:gtranter@uvic.ca">gtranter@uvic.ca</a> (250) 853-3185</td>
</tr>
<tr>
<td>Vice President</td>
<td>Lisa deWit, CPA, CGA, CIA, HBCom</td>
<td>Department of National Defence</td>
<td><a href="mailto:Lisa.deWit@forces.gc.ca">Lisa.deWit@forces.gc.ca</a> (250) 363-5631</td>
</tr>
<tr>
<td>Treasurer</td>
<td>Tony Pollard, CPA, CA, CFP</td>
<td>Parker Johnson</td>
<td><a href="mailto:tpollard@parkertonjohnston.com">tpollard@parkertonjohnston.com</a> (250) 888-6571</td>
</tr>
<tr>
<td>Secretary</td>
<td>Jenny Yue-Detterer, CPA, CA</td>
<td>KPMG</td>
<td><a href="mailto:jyuedetterer@kpmg.ca">jyuedetterer@kpmg.ca</a></td>
</tr>
<tr>
<td>Programs Chair</td>
<td>Sonia Vicente, Bcom</td>
<td>Ministry of Finance – IAAS</td>
<td>On Leave</td>
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<tr>
<td>Programs Chair</td>
<td>Graham Tranter, CIA, CFE, CRMA, CISA, CCSA</td>
<td>University of Victoria</td>
<td><a href="mailto:gtranter@uvic.ca">gtranter@uvic.ca</a> (250) 853-3185</td>
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<td>University of Victoria</td>
<td><a href="mailto:gtranter@uvic.ca">gtranter@uvic.ca</a> (250) 853-3185</td>
</tr>
<tr>
<td>Membership</td>
<td>Kelly Dorin, CFE, CPA, CA, CIA, CISA, CRMA</td>
<td>University of Victoria</td>
<td><a href="mailto:klorin@uvic.ca">klorin@uvic.ca</a> (250) 853-3184</td>
</tr>
<tr>
<td>Marketing &amp; Speciality Centres</td>
<td>Shaun Price, CPA, CA, CIA, CGAP, CRMA, BCom</td>
<td>Department of National Defence</td>
<td><a href="mailto:Shaun.Price@forces.gc.ca">Shaun.Price@forces.gc.ca</a></td>
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<tr>
<td>Certifications</td>
<td>Graham Tranter, CIA, CFE, CRMA, CISA, CCSA</td>
<td>University of Victoria</td>
<td><a href="mailto:gtranter@uvic.ca">gtranter@uvic.ca</a> (250) 853-3185</td>
</tr>
<tr>
<td>Communications</td>
<td>Graham Tranter, CIA, CFE, CRMA, CISA, CCSA</td>
<td>University of Victoria</td>
<td><a href="mailto:gtranter@uvic.ca">gtranter@uvic.ca</a> (250) 853-3185</td>
</tr>
<tr>
<td>Past President</td>
<td>Kelly Dorin, CFE, CPA, CA, CIA, CISA, CRMA</td>
<td>University of Victoria</td>
<td><a href="mailto:klorin@uvic.ca">klorin@uvic.ca</a> (250) 853-3184</td>
</tr>
<tr>
<td>Governor</td>
<td>Teeravit Chintawongvanich, CPA, CMA, CIA, CFE, CRMA</td>
<td>BC Investment Management Corporation</td>
<td><a href="mailto:teeravit.chintawongvanich@bcimc.com">teeravit.chintawongvanich@bcimc.com</a> (778) 410-7107</td>
</tr>
</tbody>
</table>

Remember that you can give us feedback at any time by contacting any of the board members identified within this (and all) newsletters. In addition, we have created a completely anonymous (no IP tracking, no identification required) survey consisting a single question allowing you to give us feedback whenever you want.

IIA Vancouver Island Anonymous Feedback: https://www.surveymonkey.com/r/ZVNNDD73