



# The Beantown Auditor

A publication of the Greater Boston Chapter of The IIA - February 2009 Edition

## Featured Article

### **Ponzi Scheme Serves as Training Material for Fraudsters: An Internal Auditor's Manual in Combating Fraud**

**Bill O'Shea CPA, CISA**  
**Wolf & Company P. C.**

*Editor's Note: Bill is the co-presenter of the IIA-Boston's November training event. He is Senior Manager of Wolf & Company.*

As an Internal Auditor you know what the requirements say. You know that your role, while not being directly responsible for preventing fraud, will be called upon to account for how this happened and who's responsible. The amount of press coverage of the recent \$50 billion Ponzi scheme has fanned the fires of public opinion as financial fraud once again gets the headlines. As seen in recent history, i.e. Enron, Worldcom, Tyco, fraud cases do (*Continued on P. 3*)

## Sharing Professional Experience

### **Planning for Certification**

**Joseph Cecala, CIA**  
**The Massachusetts Executive Office of Transportation & Public Works**

*Editor's Note: CIA certification has experienced great changes. In addition to increased frequency using Computer-based Testing, The IIA also overhauled the exam preparation system. As the Chapter considers the various review course options for the members, Joseph shares his CIA certification experience with fellow internal auditors looking to complete the professional certification process.*

Challenging and rewarding, completing the Certified Internal Auditor program is truly a great professional and personal achievement as well as an excellent way to demonstrate

## Chapter Event Highlight

### **Improving Your Internal Audit Negotiation Skills**

**Mike McShea, CIA, CFSA**  
**Wolf & Company P. C.**

*Editor's Note: This is the highlight of the IIA-Boston's seminar that received great reviews. The Chapter is considering bringing back the speaker in the upcoming month.*

On the morning of October 7, 2008 the Greater Boston Chapter hosted a well-attended half-day training session on the topic of "Improving your Internal Audit Negotiation Skills" at the Harvard Club in Boston's Financial District. The presenter was Moshe Cohen, the President of The Negotiating Table, a firm that provides mediation services to people in conflict, as well as negotiation and conflict management training. Mr. Cohen teaches negotiation and conflict management through public seminars and workshops

## **Chapter Event Planner**

The following are the events the Chapter is working on:

- February 2009. Seminar: Information Security Legislations.
- February 2009. Seminar: Auditing Disaster Recovery.
- February 2009. A free networking breakfast and seminar.
- March 2009. Seminar: Making Ethics Real. 4 CPE seminar fulfilling CPA requirement.
- March or April 2009. A CIA Review Course.
- April 2009. Half-day seminar.
- April 2009. An evening social hour.
- May 2009. All-day seminar and the Annual Meeting.

Details will be announced through periodic E-mail announcements and the Chapter website  
<http://www.theiia.org/chapters/index.cfm/view.events/cid/13>  
The Chapter always needs your participation and support. If you are willing to volunteer for the events or in any other capacity, please contact [gbmembership@yahoo.com](mailto:gbmembership@yahoo.com)

competency, expand knowledge and develop long lasting skills that prove valuable in the practice of internal auditing.

With the advent of computer based testing (CBT), the suspense of long awaited test results is eliminated and scheduling an exam date can be done with ease and flexibility. Study guides developed to simulate the new exam format through online practice testing or CD-ROM based tools are very helpful in adapting to the computer based test, especially if you have grown more accustomed to traditional pencil and paper exams. Developing a good study plan is likely to be the most valuable step in preparing for the exam. As in conducting an audit or carrying (*Continued on P. 2*)

and has conducted numerous training programs for corporations, government agencies, and at industry conferences.

The session was geared towards the internal auditor and his or her role in communicating audit findings with the auditees, as well as the difficulties and conflicts that can arise. Mr. Cohen spoke about the behaviors you might expect, their causes, and strategies for dealing with them. The morning was both lecture-based and interactive. The discussion covered topics from individual's negotiating approach to listening and assimilating the information received.

Several key points were on the agenda and were discussed throughout the session. These included:

Styles – Internal auditors should understand, recognize, and adapt different negotiation styles, from aggressive to avoidant, and everything in between, (*Continued on P. 4*)

## From The IIA Headquarters

### **Building upon Success**

*Commissioned by The IIA Research Foundation (IARF), the Common Body of Knowledge (CBOK) was conducted by researchers around the world. Our Chapter member, Priscilla A. Burnaby, Ph.D., CPA, was one of the study's lead researchers. This article is an excerpt of a publication CBOK of the Month published by IARF to focus on key areas of CBOK and help members use the findings to enhance professionalism and elevate the profession.*

Rarely is there found within the halls of a profession, anything of more importance than that profession's common body of knowledge. It comprises wise and wonderful testament, concepts, ideas, solutions, and tactics, and serves as the foundation for the future evolution and perfection of professional practices.

Historical records suggest that internal auditors were around prior to the 15th century. These auditors, employed by kings or merchants, were charged with detecting or preventing theft, fraud, and other improprieties. Control techniques such as separation of duties, independent verification, and questioning (i.e., "auditing") to detect and prevent irregularities are thought to have originated during that time. Thus, control assessment and fraud detection have become known as the "roots" of internal auditing. While it is good for internal auditors to have an appreciation of historical anecdotes, it also is important to have an understanding of the profession's current state with insights into leading practices and possible trends for the future. CBOK 2006 was designed to reinforce that internal auditing is a profession and to help guide practitioners toward becoming the most professional internal auditors they can be. It has allowed The IIA and its members to better understand global trends by providing information on how internal auditing is being practiced around the world.

The outcome of CBOK 2006 is a living library of growing information. This library provides insights about the current knowledge range of internal auditors, what skills are needed to practice in the profession, the various responsibilities of practitioners, the structure of internal audit functions, what types of relationships internal auditors have with their audit committees, the value of certification, which industries use internal auditing, the importance of quality assurance, and the various laws and regulatory environments that affect internal auditing.

### **Planning for Certification**

*(Continued from P. 1)* out a complex program, effort and time committed extensive to planning is time well spent and critical to achieving success. Having a structured and goal-oriented study plan helps immensely to focus study efforts, monitor progress and stay on track.

A good way to begin a study plan is to develop specific, time-bound objectives that can be used to measure study results and to identify areas that require improvement. Though specific, a study plan has to be flexible enough so it can be modified during the course of the program, for example when finding more difficulty with certain topics that might require additional review. Outside of studying for the exam, the same approach is helpful in carrying out an audit program where unexpected conditions may arise which merit further examination.

There are numerous examples of how the information from CBOK 2006 has helped to elevate our profession "behind the scenes." Converting the results of the study to actions helps ensure the profession remains vibrant and expands The IIA's ability to be effective, relevant, and responsive to the needs of the profession. CBOK has helped The IIA learn about gaps that exist between professional guidance and practitioners' understanding and usage. It has been used to update The IIA's conference and seminar curriculum to enhance the professional development of practitioners. CBOK also is helping drive priorities for research and educational content that will help to shape the future of the profession on a global basis. *(Continued on P. 3)*

### Odds and Ends

#### **Chapter Member Presentation Survey**

The Chapter is looking to collect information about member speaking and publishing activities. The information will only be used to help the IIA evaluate our Chapter member's involvement with the industry. We estimate it will take no more than 10 minutes depending on the number of activities you have engaged in. Please follow the link below:

[https://www.surveymk.com/s.aspx?sm=A1YgBb\\_2fe7S6VKCmXjHC7CA\\_3d\\_3d](https://www.surveymk.com/s.aspx?sm=A1YgBb_2fe7S6VKCmXjHC7CA_3d_3d)

#### **New Research from IIA Research Foundation**

*Then and Now: Expectations and Reality of Sarbanes-Oxley.* This book reviews the early expectations of organizations regarding what it would take to achieve full compliance with the act, and contrasts how the reality of the intervening years since 2002 matched those early expectations.

According to feedback from internal auditors in this study, Sarbanes-Oxley has been challenging in terms of changes and costs for both the organization as a whole and the internal audit activity. However, some important and sometimes unexpected benefits have resulted from the activities undertaken to become compliant with the Act. Readers of this report should be able to identify additional ways to reduce the costs and disruptions and to identify additional benefits that can be derived from Sarbanes-Oxley activities.

*Honest, Competent Government: The Promise of Performance Auditing* lays out the challenges that government performance auditors face and offers recommendations to advance the field.

The new profession of government performance auditing should be based on the idea that the point of the work is to serve the citizens. This book lays out the challenges that government performance auditors face in the real world and puts forward recommendations to move the field forward.

In carrying out the study program, it is most helpful to study in short increments during periods of the day where your energy level is higher; for example in the morning or after exercising. As the exam day approaches, plan to study for fewer hours. When training for a race, competitive swimmers, runners and rowers taper their efforts as the big day nears. This strategy also works well for studying. Rather than studying for several hours during the nights leading up to the exam; resting the mind and body helps to avoid information overload, reduce unnecessary anxiety and maintain confidence. Once it comes time to take the exam, there is no better friend than a positive attitude and a fighting spirit!

Having earned a certification in internal auditing, my own credibility is greatly enhanced. Audit team members and audit clients are confident in the quality of service that can be expected, and appreciative of the commitment to professionalism. 🏠

## Building upon Success

(Continued from P. 2) The regional data collected from CBOK 2006 has been used by a number of IIA affiliates to perform their own local analysis. For instance, IIA France has used the data from survey respondents in their country to publish a region-specific internal audit research report. (Links to available published reports may be found at the end of this article.)

### The Changing Internal Audit Landscape: Setting the Scene for the Future – CBOK 2010

Because internal auditing is so well positioned to understand many different aspects of a company, it finds itself in the middle of tremendous change and opportunity. The way that our profession responds to the opportunities will determine its destiny for years to come. Never have the challenges been greater or the stakes higher. To meet these challenges we must know where the profession has been, where it is now, and where it is headed. The success of the 2006 study has paved the way for the next iteration of CBOK so that we can continue to understand, guide, and shape the profession; raise questions about its future; and take full advantage of today's opportunities.

CBOK 2006 became the most comprehensive and global research study ever undertaken on the internal audit profession. The baseline has been set and the bar must be raised to build upon that success in order to properly represent the evolution of the profession and to serve as a global benchmark for comparing internal audit practice. The IIA has realized that the rapid growth of the profession around the world is drastically changing the picture of internal auditing. And as the profession changes, so will CBOK's results. The study will be repeated the first quarter of 2010.

The CBOK 2010 Global Steering Committee has been selected and will be co-chaired by former IIA president Dave Richards, CIA,

## Combating Fraud

(Continued from P.1) damage to the public's trust of businesses and governments alike. While the Internal Auditor is not the one making the press statements on the evening news, executives will look to you to help determine accountability.

### Anatomy of a Fraud

It is only natural that the publication of a fraud seems to encourage thieves. It is a learning experience for them and with each mouse trap the mouse gets smarter in getting around it; adjusting the scheme to bypass potential roadblocks, checks, and balances. A strong internal audit function should act as a living thing, updated frequently for emerging threats and allowing the Internal Auditor to use the monitoring of controls to uncover instances where fraud may be germinating. If not caught in the beginning, the perpetrators of a "small" fraud will graduate to larger and larger takes. The Internal Auditor's job is to create and monitor such a thorough control environment that thieves look for an easier target.

The Internal Auditor's role in fraud prevention is four parts: identify, document, report and monitor. The fifth part in fraud prevention, which falls squarely on the shoulders of management, is training. In the end, the organization's ability to remain untouched by fraud is only as strong as the audit and training

and Grant Thornton partner Sri Ramamoorti, PhD, CIA, CFSA, CGAP. This committee also will serve in an advisory capacity for The IIARF strategic plan.

With the help of our chapter and institute leaders it is possible that CBOK 2010 will garner more information than ever before. This means capturing even more responses so that our leaders can better understand the profession and can better respond to the needs of our members. Without the information gained from CBOK, The IIA would not be able to lead our profession in the right direction and provide up-to-date relevant guidance for the profession on an ongoing basis. Participating in CBOK builds a foundation for the future growth of the profession and helps The IIA serve as a knowledge leader and as a definitive source of information on the practice and state of internal auditing.

For additional information about CBOK 2010, please contact [research@theiia.org](mailto:research@theiia.org)

### Recommended Reading

*A Global Summary of the Common Body of Knowledge 2006*, available to IIA members as a free download at <http://www.theiia.org/research/common-body-of-knowledge/download/>, or for purchase from The IIARF Bookstore: <http://www.theiia.org/bookstore/product/common-body-ofknowledge-2006-a-global-summary-of-the-1163.cfm>  
CBOK as published by European Confederation of IIA: <http://esv.info/id/350311036/katalog.html>  
CBOK as published by IIA France: <http://www.ifaci.com/fo/page.asp?id=263>  
CBOK as published by IIA Italy: <http://www.aiiaweb.it/default.asp?tipo=book&codlib=35> ↑

program working together. An audit program alone cannot withstand the sheer number of potential fraud opportunities that exist in today's business environment.

### Where's the risk? It hurts a lot less when YOU identify it.

In order to know where you are vulnerable, you first need to know where your risks are. A risk assessment helps you determine what activities hidden in the business operations expose the organization to fraud. Fraud always begins with the individual so particular attention in your risk assessment should be paid to the areas that deal with human decision making and interaction, such as segregation of duties, whistle-blower policies and reporting process, job rotation, mandatory vacations for employees, and extensive background checks of job applicants.

An effective fraud risk assessment process includes an assessment of the incentives, pressures, and opportunities employees have to commit fraud. The types of employee incentive programs and the metrics on which they are based may indicate where pressure exists, to manipulate results, and therefore provide a map to where fraud is most likely to occur. Fraud risk assessments should consider the potential override of controls by management, such as manipulating financial results to meet earnings expectations, as well as areas where controls are weak. Any fraud risk assessment

should consider access and override of system controls as well as internal and external threats to data integrity, system security, and theft of financial and sensitive business information processed in the organization's automated systems.

Once the risk assessment has been completed you can determine where the gaps are in your processes and where controls should be strengthened.

The ability to keep your organization out of the headlines has a direct correlation to how much time you spend verifying that you follow your own rules. At least annually, the organization should perform a risk assessment to evaluate the effectiveness of its program. This risk assessment should be reviewed and updated keeping in mind any regulatory and technology developments that may impact your internal audit environment. Once the risk assessment process is complete, any material changes to the program should be discussed and approved at the audit committee level

#### **It pays to be a pencil pusher: Documenting your controls**

Often, symptoms of fraud are buried in the audit workpapers so the assessment should begin with an analytical review to identify any unusual or unexpected relationships in the data that may indicate wrong doing. Once you have identified the areas of higher risk, you may need to take the following steps: review the accounting policies and procedures with an emphasis on those relating to fraud; interview management and employees; sample test controls compliance; observe control activities; review previous audit reports; and review previous reports of fraud incidents; examine incidences of shrinkage, and unexplained shortages. When examining large volumes of computer generated information, data mining techniques using software applications designed for the purpose can be employed. If a fraud is suspected the examination should be conducted on a surprise basis to preclude the perpetrator from covering up or destroying evidence.

#### **Keep your boss informed: Reporting is key**

The internal audit charter should require the audit committee to monitor the organization's fraud risk management effectiveness, and should be a regular item on its agenda. The board should appoint one executive-level member of management to be responsible for coordinating fraud risk management and reporting to the board on the topic.

Of course, any incidents of actual fraud and management's response to the event should also be disclosed to the body overseeing compliance with anti-fraud efforts within the organization.

#### **Everybody on the bus: Training your team**

What good is all this work if you don't have anyone following the rules? It is imperative that all personnel within the institution are trained not only on what they're doing but also on why they're doing it. And there must be enough time given for Internal Auditors to follow up on any symptoms of fraud that they uncover. Management must be flexible if fraud is suspected, as the necessary areas to be reviewed will increase exponentially as you determine where the whole thing began. In this environment, ignorance of the problem or self-preservation within personal job responsibilities is secondary to plugging the hole. Use this opportunity to educate them on the overwhelming benefits of fixing the fraud rather than laying blame. Reduction of fraud is beneficial to everyone at the organization.

Fraud is one of the dark sides of running a business. Lessons are all too often learned after personally experiencing what it is to be thrown into the arena of public opinion and regulatory criticism. As the Internal Auditor of your organization you have the daunting task of preparing for the day when your CEO comes asking, "How did this happen?" The level of loss and damage to your organization is dependent upon how well you identify, document, monitor and report when considering fraudulent activity. 🏠

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## **Negotiation Skills**

(Continued on P. 1) based on the participants and situations in order to achieve the most effective result.

Collaboration – Negotiators should be prepared to collaborate with the auditees and own management to consider and factor in the goals of all parties without giving in on important outcomes.

Communication Skills – Effective communication is essential for successful negotiations. Auditors need to listen to the messages being sent not just the words and need to communicate their points and objectives effectively.

The participants participated in a negotiation exercise involving a conflict in the workplace similar to a difficult conversation that

could arise over an audit finding. Participants were challenged to utilize some of the skills discussed during the morning to reach a satisfactory conclusion.

The seminar made the participants aware of the common issues internal auditors face when dealing with auditees. It also pointed out examples where we listen but don't always hear the underlying message of the auditees. In addition to learning and communicating, the auditors need to establish clear goals and outcomes before initiating negotiations with the auditees. Having a clear goal in mind will help the auditors focus on the most important audit issues to the organization, while allowing auditors to address auditees' concerns in the negotiation. This is the most effective approach to achieve organizational changes. 🏠