



# Life As An Internal Auditor

Brought to you by The Institute of Internal Auditors

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# INTRODUCTIONS

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# 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.\*

\*Institute of Internal Auditors

<http://www.theiia.org/theiia/about-the-profession/internal-audit-faqs/?i=1077>

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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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# 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.
  - 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.
- It helps organizations to improve the effectiveness of their risk management, control, and governance processes.\*

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# INTERNAL AUDIT BASICS DEFINITION (IIA)

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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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# 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 is an integral part of an organization's risk management, control, and governance processes.
- Internal auditing is a systematic, disciplined approach based on guidance issued by regulators, professional certifications, and training provided by your firm, designed to achieve the organization's objectives and reduce the risk of failure.

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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# HISTORY OF INTERNAL AUDIT

- 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.
- The modern practice of auditing internal control systems replaced the prior technique of re-performing every step
- Today, we use sophisticated risk modeling, statistical sampling, computer assisted audit techniques, and customer-focused total quality management as part of the audit process



# INTERNAL AUDIT BASICS PURPOSE

- The four cornerstones of effective corporate governance are:
  - audit committee of the board of directors
  - executive management
  - external auditors
  - internal auditors
- When these groups work together with healthy interdependence, internal controls are strong, reporting is accurate, ethics are maintained, oversight is effective, risks are mitigated, and investments are protected.



# INTERNAL AUDIT: WHAT IS OUR ROLE

# WHAT IS INTERNAL AUDIT'S ROLE IN THE ORGANIZATION?



# WHAT IS INTERNAL AUDIT'S ROLE IN THE ORGANIZATION





# INTERNAL AUDIT: CAREER OPPORTUNITIES

# INTERNAL AUDIT WHAT IS THE CAREER PATH?



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

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

- Head of IA Department
- Other key management positions in the company
- Partner in a professional services firm

# INTERNAL AUDIT BASICS

## WHAT IS INTERNAL AUDITING?

Communicating with clarity  
and accuracy

Analyzing  
opportunities

Examining global  
issues

**WHAT IS  
INTERNAL  
AUDITING?**

Evaluating  
emerging  
technologies

Assessing risks, controls,  
ethics, quality, economy, and  
efficiency

Assuring that controls are  
adequate to mitigate the risks



# INTERNAL AUDIT: NEED

# DOES INTERNAL AUDIT HAVE TO EXIST?



# DOES INTERNAL AUDIT HAVE TO EXIST?



"WorldCom: Who's really gonna notice \$9 billion dollars anyway?"<sup>1</sup>

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](http://mba.tuck.dartmouth.edu/pages/faculty/syd.finkelstein/case_studies/03.html)

# DOES INTERNAL AUDIT HAVE TO EXIST?

"WorldCom: Who's really gonna notice \$9 billion dollars anyway?"<sup>1</sup>.

- 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 losses.
- 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.

<b>Count 1</b>	<b>Securities Fraud Conspiracy</b>	<b>Guilty</b>
<b>Count 2</b>	<b>Securities Fraud</b>	<b>Guilty</b>
<b>Count 3-9 (7 counts)</b>	<b>False Filing With the SEC</b>	<b>Guilty</b>

2

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)

2. <http://money.cnn.com/2005/03/15/news/newsmakers/ebbers/>

# INTERNAL AUDITORS BASICS

## WHO ARE INTERNAL AUDITORS?

- Internal auditors are key to an organization's success in today's business world
- Professionals with an in-depth understanding of the business culture, systems, and processes
- Diversity of knowledge gives internal auditors a broad perspective on the organization
- Education and expertise can differ broadly. They come from diverse areas such as engineering, operations, finance, and information technology



# INTERNAL AUDIT: WHO WE ARE & WHAT WE DO

# INTERNAL AUDITORS BASICS

## WHO ARE INTERNAL AUDITORS

- A **valuable resource** to executive management and boards of directors in accomplishing overall goals and objectives, as well as in strengthening internal controls and organizational governance
- Provide **objective, independent, professional advice** to management and strive for continuous improvement
- Have **extensive knowledge of computer systems** and the Internet, regardless of background or industry

# HOW DOES INTERNAL AUDIT DECIDE WHAT TO AUDIT?



1 <b>Risk Identification</b>	2 <b>Validation</b>	3 <b>Prioritization</b>	4 <b>Mapping</b>	5 <b>Develop Audit Plan</b>
Develop risk universe by first identifying organization’s goals and objectives, and then leveraging external thought leadership and prior audit experience to identify risks to achieving goals	Validate relevance of risk universe through a combination of data analytics and qualitative input from management	Rank risks according to likelihood and impact, taking into account such considerations as prior audit findings, organizational changes, and linkage to key strategic initiatives	Map top risks to relevant ‘auditable entities’, this may be a particular organization, project, or cross-functional process	Develop audit plan to evaluate process and controls for auditable entities linked to key risks

# INTERNAL AUDIT

## WHAT DO WE DO?

- Business Process Audits
  - Operational Audits
    - Determining if resources are being used effectively and efficiently to fulfill the organization's mission and objectives
- Financial Audits
  - Reviewing accounting /financial transactions accuracy and proper treatment.
- Compliance Audits
  - Determining if entities are complying with applicable laws, regulations, policies and procedures
- Internal Control Reviews
  - Review of operation and adequacy of controls around major business functions (i.e. payroll, accounts payable and financial reporting)

# INTERNAL AUDIT

## WHAT DO WE DO?

### 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

# INTERNAL AUDIT MANAGEMENT & CHALLENGES

## What are some factors to consider when conducting an internal audit?

- Stakeholders expectations
- People
- Financials
- Regulatory requirements
- Communication
- Timeliness



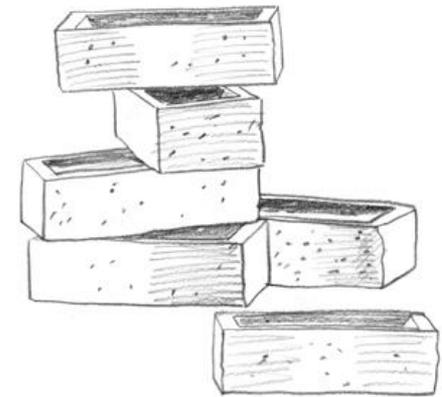


# INTERNAL AUDIT: CHALLENGES

# INTERNAL AUDIT MANAGEMENT & CHALLENGES

## What are some challenges of internal auditing?

- Prioritization of Audits
- Skill / Knowledge Requirements
- Regulatory Requirements
- Corporate/Management Buy-in
- Staffing / Resources





# INTERNAL AUDIT: CERTIFICATIONS & ASSOCIATIONS

# CERTIFICATION PROGRAMS

- 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)

# PROFESSIONAL ASSOCIATIONS

- Institute of Internal Auditors (IIA)
- Association of Certified Public Accountants (AICPA)
- Information Systems and Control Association (ISACA)
- Association of Certified Fraud Examiners (ACFE)



# INTERNAL AUDIT: IS IT FOR YOU?

# 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.

# INTERNAL AUDIT WHAT ARE THE KEYS TO SUCCESS?



Be comfortable with being uncomfortable.

Learn from those around you and above you.

Find the learning opportunity in every mistake you make.



Ask questions!



# QUESTIONS





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