THE GOLD STANDARD IN STAFFING, RECRUITING AND PROFESSIONAL

VIRTUAL SEMINAR

AUDIT 101: STAFF AUDITOR BOOTCAMP

PRESENTED BY:
DANNY M. GOLDBERG
GOLDSRD

PRESENTER: *DANNY M. GOLDBERG*

Danny M. Goldberg is the Founder of GoldSRD (**www.GoldSRD.com**), a leading provider of Staff Augmentation, Executive Recruiting and Professional Development services. Danny is a well-known speaker on internal auditing and People-Centric Skills, co-authoring ***People-Centric Skills: Communication and Interpersonal Skills for Internal Auditors,*** via Wiley Publications. ***People-Centric Skills, 2nd Edition,*** the follow-up to this critically acclaimed book, is currently available via Amazon and ***through GoldSRD at a discounted rate*** and has sold over 3,000 copies.

Danny has over 24 years of professional experience, including five years leading/building internal audit functions. Danny was named as one of the Fort Worth Business Press 40 Under 40 for 2014.

He is a thought-leader in the profession, recognized through his numerous articles in trade magazines and consistent rating as a top speaker in the industry. Mr. Goldberg is also accredited as the Professional Commentator of the *Bureau of National Affairs* - Internal Audit: Fundamental Principles and Best Practices (Professional Commentator). This book was authored by renowned audit scholars Curtis C. Verschoor and Mort A. Dittenhofer – co-author of **Sawyer's Internal Auditing.**

Mr. Goldberg is an active member of the Institute for Internal Auditors, both at a local and national level. Leadership roles include:

- Current IIA Dallas Advisory Board Member
- Former IIA Dallas Chapter Board Member & Programs Committee Co-Chair (2016-2021)
- Former IIA FtW Chapter Board Member & Programs Committee Co-Chair (2012-2016
- Former Member of the IIA North America Learning Committee (2015)
- Former Volunteer Chairman of the American Lung Association (2014)
- Former Audit Committee Chairman/Director at numerous religious organizations

Danny is a Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), Certified in the Governance of Enterprise Information Technology (CGEIT), Certified in Risk and Information Systems Control (CRISC), Certified in Risk Management Assurance (CRMA), has obtained his Certification in Control Self-Assessment (CCSA) and is a Chartered Global Management Accountant (CGMA).

GoldSRD Overview

Professional Development:

- Nationally Recognized Leader in Audit and People-Centric© Skills Training
- Over 285 Full-Day Courses on Audit, IT Audit, Accounting, Finance, Personal Development and People-Centric Skills
- Registered with NASBA to offer CPE's for all courses in course catalog (Live and Web-Based)
- Interactive and Educational Courses for all levels

Executive Recruiting:

- Unique approach to filling positions, including personality assessment for candidate and organization
- Expansive network of qualified candidates actively looking

Staff Augmentation:

- Market leader in locating cost-effective, recognized resources in accounting, finance, AUDIT, and IT
- All requests filled within **72 hours**

2022 Virtual Course Offerings

Practical Ethics 5.0

Annually, GoldSRD rewrites our signature course, Practical Ethics, to look for a fresh take on reiterating the importance of ethics in our industry in addition to challenging our current perspectives. Each webinar can be purchased for $50.00 per person and discounts are offered to organizations with five or more attendees (when registering 5+ team members, please email inquiry@goldsrd.com with all relevant team member information and you will be invoiced separately).

Dates Available:

- April 25th
- July 25th
- October 31st
- December 5th
- December 12th

Audit 101: Staff Auditor Bootcamp

- February 14-17 (11:00-3:00pm CST) – 16 Hours Total, Cost – $500 per person
- July 11-14 (11:00-3:00pm CST) – 16 Hours Total, Cost - $500 per person

IT Auditing for Non-IT Auditors

- June 29-30 (Noon-4:00pm CST) – 8 Hours Total, Cost – $225 per person

Project Management

- May 12-13 (11:00-3:00pm CST) – 8 Hours Total, Cost – $225 per person

Audit 301: Audit Manager Bootcamp

- June 20-23 (11:00-3:00pm CST) – 8 Hours Total, Cost – $500 per person

Audit 201: Senior/In-Charge Auditor Bootcamp

- June 24, 27, 28, 29 (11:00-3:00pm CST on the 24th, 27th, 28th and 8:00-Noon CST on the 29th) – 16 Hours Total, Cost – $500 per person

AUDIT 101: BEGINNER AUDITOR BOOT CAMP

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INTRODUCTION

THE GOLD STANDARD IN STAFFING, RECRUITING AND PROFESSIONAL DEVELOPMENT

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THE GOLD STANDARD IN STAFFING, RECRUITING AND PROFESSIONAL DEVELOPMENT

DANNY M. GOLDBERG

- FOUNDER, GOLDSRD (WWW.GOLDSRD.COM)
- FORMER DIRECTOR OF CORPORATE AUDIT/SOX AT DR PEPPER SNAPPLE GROUP
- FORMER CAE - TYLER TECHNOLOGIES
- PUBLISHED AUTHOR (BOOK/ARTICLES)
- TEXAS A&M UNIVERSITY – 97/98
- CHAIRMAN OF THE LEADERSHIP COUNCIL OF THE AMERICAN LUNG ASSOCIATION - NORTH TEXAS – CALENDAR YEAR 2012
- SERVED ON THE AUDIT COMMITTEE OF THE DALLAS INDEPENDENT SCHOOL DISTRICT (CY 2008)
- CURRENT DALLAS AND FORMER FORT WORTH IIA PROGRAMS CO-CHAIR
- DALLAS IIA BOARD MEMBER (2018-)
- FORMER FORT WORTH IIA BOARD MEMBER (2015-18)
- IIA NORTH AMERICA LEARNING COMMITTEE MEMBER (2014-15)

CERTIFICATIONS:

- CPA – SINCE 2000
- CIA – SINCE 2008
- CISA – SINCE 2008
- CGEIT - SINCE 2009
- CRISC - SINCE 2011
- CRMA – SINCE 2011
- CCSA – SINCE 2007
- CGMA – SINCE 2012

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GOLDSRD SNAPSHOT

PROFESSIONAL DEVELOPMENT:

- **NATIONALLY-RECOGNIZED LEADER** IN AUDIT AND PEOPLE-CENTRIC© SKILLS TRAINING
- OVER **275 FULL-DAY COURSES** ON AUDIT, IT AUDIT, ACCOUNTING, FINANCE, PERSONAL DEVELOPMENT AND PEOPLE-CENTRIC© SKILLS
- FACULTY OF WELL-KNOWN PROFESSIONAL SPEAKERS
- REGISTERED WITH **NASBA** TO OFFER CPE'S FOR ALL COURSES IN COURSE CATALOG (LIVE AND WEB-BASED)
- FUN, INTERACTIVE AND EDUCATIONAL COURSES FOR ALL LEVELS

EXECUTIVE RECRUITING:

- UNIQUE APPROACH TO FILLING POSITIONS, **INCLUDING PERSONALITY ASSESSMENT FOR CANDIDATE AND ORGANIZATION**
- EXPANSIVE NETWORK OF QUALIFIED CANDIDATES ACTIVELY LOOKING

STAFF AUGMENTATION:

- MARKET LEADER IN LOCATING COST-EFFECTIVE, RECOGNIZED RESOURCES IN ACCOUNTING, FINANCE, AUDIT AND IT
- ALL REQUESTS FILLED WITHIN **72 HOURS**

SPECIAL PROJECTS:

- AGILE AUDITING IMPLEMENTATION
- QUALITY ASSURANCE REVIEWS
- SOX CONTROLS TESTING & RATIONALIZATION

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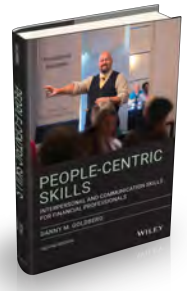
PEOPLE-CENTRIC SKILLS, 2ND EDITION

- 1st Edition published August 2014 (Wiley Publications)
  - Over 4,000 copies sold (5 Star Amazon Review)
  - **First** book specific to internal audit communications and personal interactions
  - Story book format
- 2nd Edition published **July 2020 (sold 1,500 copies through December 2021) - $20 Shipped!**
  - Follows main character through different situations/storylines that are relatable
    - Reading People (Fraud Interview)
    - Emotional Intelligence
    - Determining the Optimal Mode of Communication
    - Influencing Change through Communication
    - Public Speaking/Presentation Skills
    - Coaching and Mentoring
    - Reading Body Language
    - Thinking Quickly on Your Feet
    - Crisis Management



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AGENDA

I. Introduction and Background
II. Overview of Internal Audit Guidance
  a. IIA Standards Overview
  b. COSO
  c. GTAG/COBIT
III. Corporate Governance
IV. Internal Audit Annual Planning
V. Internal Audit Process
VI. Engagement Planning
VII. Fraud Auditing
VIII. Controls Overview
IX. Engagement Fieldwork
X. Audit Wrap-Up
XI. Audit Interviews
XII. IT Auditing
XIII. Flowcharting
XIV. Crucial Communications

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INTRODUCTION, OVERVIEW AND BACKGROUND

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WHAT DO INTERNAL AUDITORS DO?

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WHAT IS INTERNAL AUDIT (IN LAYMAN'S TERMS)

- Internal Audit makes sure, based on a risk model, that everything is as it is supposed to be
  - Policies are adhered to
  - Revenue is recognized appropriately
  - Controls are functioning as intended
- Internal Audit is also an internal consulting function:
  - Assist in recommending controls for new systems
  - Process Improvements

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HISTORY OF INTERNAL AUDITING

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HISTORY OF INTERNAL AUDITING

- Auditor – Latin Word meaning "hearer" or to listen/hear
- Profession continues to evolve over time
- Scope and objectives of internal auditing have changed significantly since 2000

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POLLING QUESTION

The root of the word auditor (in Latin) is?

a) To investigate

b) To listen

c) To review

d) To comply

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OVERVIEW OF INTERNAL AUDIT GUIDANCE

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WHAT IS THE GOAL OF INTERNAL AUDIT?

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DEFINITION OF INTERNAL AUDITING (RED BOOK)

- 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.

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POLLING QUESTION

What is the ultimate goal of internal auditing and the key message that connects us with our clients?

a) Add Value
b) Mitigate Risks
c) Assist Organization in Achieving Objectives
d) Protect Assets

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AUDITOR GUIDANCE?

- International Professional Practice Framework ("IPPF")
- Governmental Auditing Standards ("Yellow Book")
- Generally Accepted Auditing Standards (AICPA/ASB/PCAOB)
- State Requirements (varies)
- Major differences between standards are minimal

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THE INSTITUTE OF INTERNAL AUDITORS

- Formed in 1941
- Headquartered in Altamonte Springs, Florida
- 130,000 members worldwide and growing
- Sets standards for practicing internal audit (IPPF)
- Conferences
- Research
- Guidance is somewhat "loose"

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IIA IPPF

- Definition
- Code of Ethics
- International Standards (attribute, performance, implementation)
- Position Papers
- Practice Advisories
- Practice Guides

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POLLING QUESTION

Which element is mandatory guidance put forth by the IIA IPPF?

a. Practice Advisories
b. Practice Guides
c. Code of Ethics
d. Position Papers

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ASSURANCE SERVICES

- Assurance services involve the internal auditor's **objective assessment** of evidence to provide **independent opinions or conclusions** regarding a process, system, or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor.

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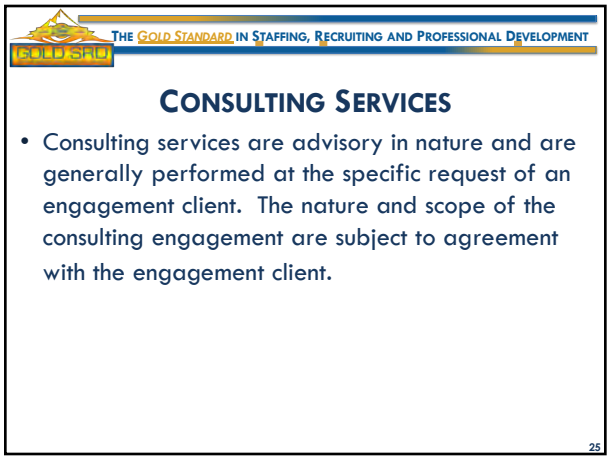

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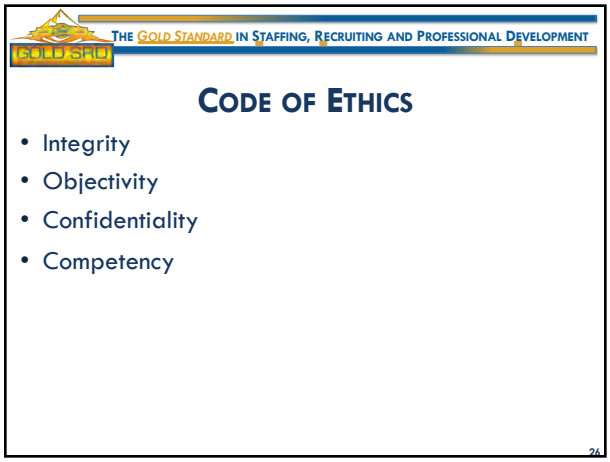

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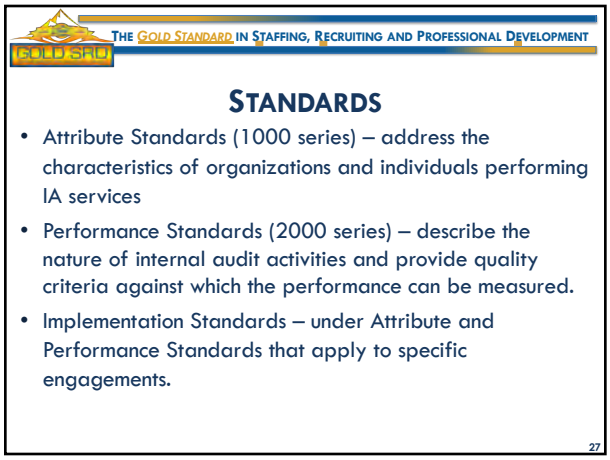

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ATTRIBUTE STANDARDS

- 1000 – Purpose, Authority, Responsibility
- 1100 – Independence and Objectivity
- 1200 – Proficiency and Due Professional Care
- 1300 – Quality Assurance and Improvement Program

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PERFORMANCE STANDARDS

- 2000 – Managing the Internal Audit Activity
- 2100 – Nature of Work
- 2200 – Engagement Planning
- 2300 – Performing the Engagement
- 2400 – Communicating the Results
- 2500 – Monitoring Progress
- 2600 – Communicating the Acceptance of Risks

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IPPF

Elements	Definition
Definition	Statement of **fundamental** purpose, nature, and scope of internal auditing.
Code of Ethics	Statement of principles and expectations governing behavior of individuals and organizations in the conduct of internal auditing. Description of minimum requirements for conduct. Describes **behavioral expectations** rather than specific activities.
International Standards	Mandatory requirements consisting of: • Statements of basic requirements for professional practice of internal auditing and for evaluating the effectiveness of its performance, which are internationally applicable at organizational and individual levels. **Principle**-focused and provide a framework for performing and promoting internal auditing. Includes Attribute, Performance and Implementation **Standards**. • **Interpretations**, which clarify terms or concepts within the Statements. Consider both Statements and Interpretations to understand and apply correctly.
Position Papers	IIA statement to assist a wide range of interested parties, including those not in internal auditing profession, in understanding **significant** governance, risk or control issues and delineating related **roles and responsibilities of internal auditing**.
Practice Advisories	Address **approach, methodology** and considerations, but NOT detailed processes and procedures. Concise and timely guidance to assist internal auditors in applying Code of Ethics and Standards and promoting good practices. Includes practices relating to: international, country, or industry specific issues; specific types of engagements; and legal or regulatory issues.
Practice Guides	**Detailed guidance** for conducting internal audit activities. Includes detailed **processes and procedures** such as tools and techniques, programs, and step-by-step approaches, including examples of deliverables.

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CODE OF ETHICS

- **Integrity**
  - The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
- **Objectivity**
  - Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- **Confidentiality**
  - Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- **Competency**
  - Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

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POLLING QUESTION

The four Principles of the IIA Code of Ethics are:

a. Integrity, Objectivity, Confidentiality, Competency

b. Integrity, Objectivity, Consistency, Competency

c. Integrity, Skepticism, Consistency, Competency

d. Integrity, Skepticism, Confidentiality, Competency

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PAS RELATED TO *ATTRIBUTE STANDARDS*

1000: Purpose, Authority, and Responsibility
1010: Recognizing Mandatory Guidance in the Internal Audit Charter
1100: Independence and Objectivity
1110: Organizational Independence
1111: Direct Interaction with the Board
1120: Individual Objectivity
1130: Impairments to Independence or Objectivity
1130.A1: Assessing Operations for Which Internal Auditors were Previously Responsible
1130.A2: Internal Audit's Responsibility for Other (Non-audit) Functions
1200: Proficiency and Due Professional Care
1210: Proficiency
1210.A1: Obtaining Services to Support or Complement the Internal Audit Activity
1220: Due Professional Care
1230: Continuing Professional Development
1300: Quality Assurance and Improvement Program
1310: Requirements of the Quality Assurance and Improvement Program
1311: Internal Assessments
1312: External Assessments
Interpretation: External Assessment - Self Assessment with Independent Validation
1321-1: Use of "Conforms with the *International Standards for the Professional Practice of Internal Auditing*"

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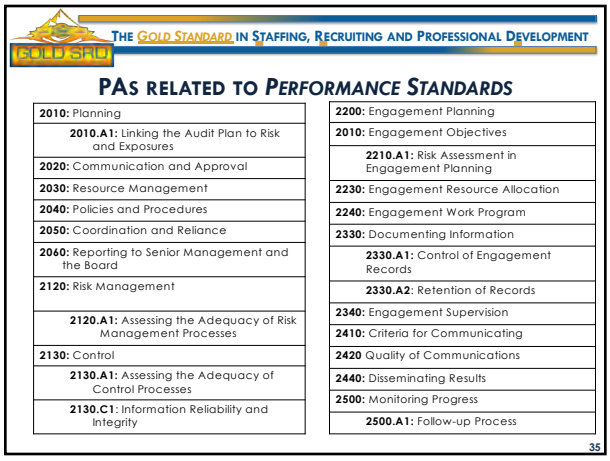

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COSO GUIDANCE

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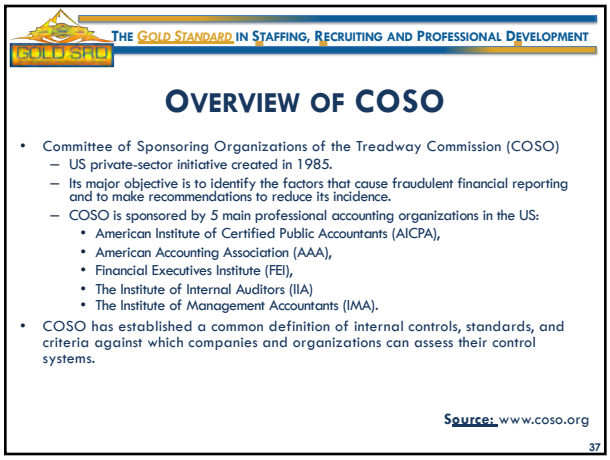

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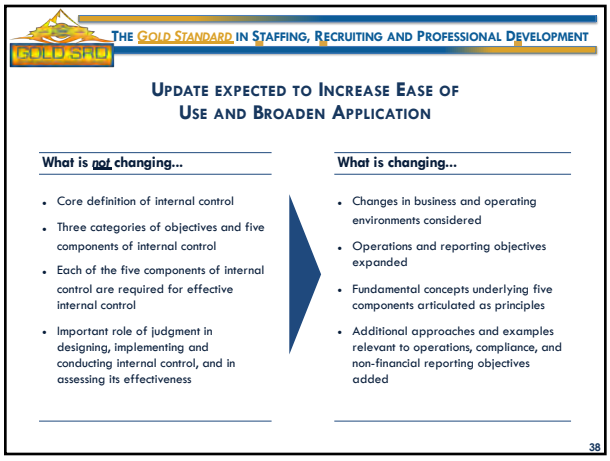

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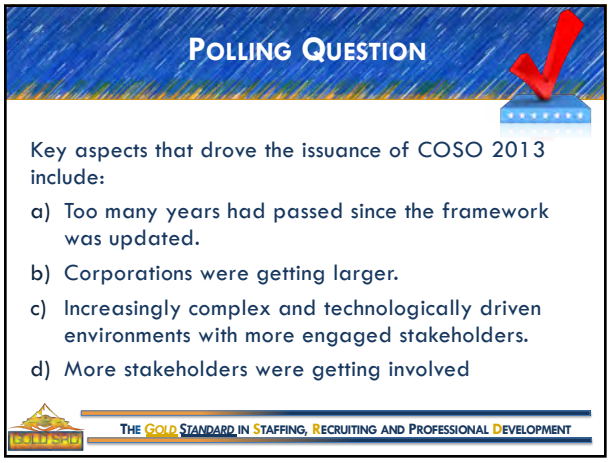

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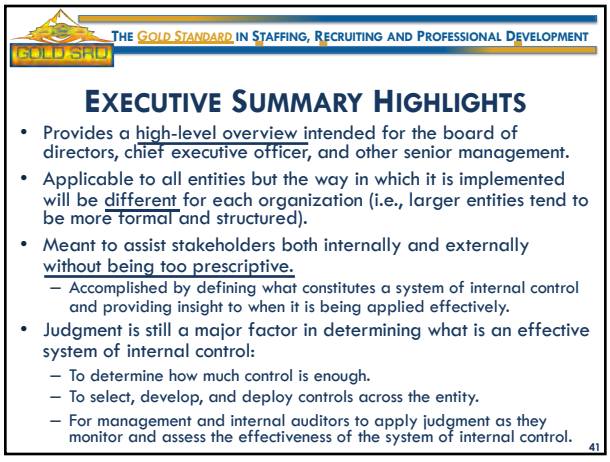

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EXECUTIVE SUMMARY HIGHLIGHTS

- Requirements for an effective system of internal control are:
  - Each of the five components and relevant principles (17 principles in total) are present and functioning.
  - The five components operate together in an integrated manner or as an integrated system.
- When a major deficiency exists with respect to the presence and functioning of a component or relevant principle, or with respect to the components operating together in an integrated manner, the organization cannot conclude that it has met the requirements for an effective system of internal control.
- An effective system reduces, to an acceptable level, the risk of not achieving an entity objective and may relate to one, two, or all three categories of objectives (Operations, Reporting, Compliance).

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EXECUTIVE SUMMARY HIGHLIGHTS

- Limitations do exist:
  - Suitability of objectives are a precondition to internal control
  - Human judgment can be faulty and subject to bias
  - Human failures such as simple errors do occur
  - Management could override internal control
  - Collusion could circumvent controls
  - External events beyond the organization's control
- Internal control provides reasonable assurance of achieving the entity's objectives but not absolute assurance
- Management should be aware of these limitations when selecting, developing, and deploying controls

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COSO DEFINITION OF INTERNAL CONTROL

Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

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POLLING QUESTION

Internal controls assist an organization in achievement of all the following objectives EXCEPT:

a. Effectiveness and efficiency of operations
b. Economy of financial reporting
c. Reliability of financial reporting
d. Compliance with applicable laws and regulations

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CONSIDERS CHANGES IN BUSINESS & OPERATING ENVIRONMENTS

Environment changes...

- Expectations for governance oversight
- Globalization of markets and operations
- Changes and greater complexity in business
- Complexities in laws, rules, regulations, and standards
- Expectations for competencies and accountabilities
- Use of, and reliance on, evolving technologies
- Expectations relating to preventing and detecting fraud

...have driven Framework updates

- ***COSO Cube (2013 Edition)***

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17 PRINCIPLES OF INTERNAL CONTROL

Control Environment (CE)

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment (RA)

6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

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17 PRINCIPLES OF INTERNAL CONTROL

Control Activities (CA)

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

Information & Communication (IC)

13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring Activities (MA)

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

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POLLING QUESTION

John is leading the review of all processes to determine where the most fraud risk lies. Which principle is John applying from COSO 2013?

a. Assesses fraud risk
b. Identifies and analyzes significant change
c. Selects and develops control activities
d. Communicates externally

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GENERAL IT AUDIT GUIDANCE

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IIA STANDARDS AND IT AUDITING

- 1210.A3 – Proficiency
  - Internal auditors must have **sufficient knowledge** of **key information technology risks and controls** and available technology-based audit techniques to perform their assigned work.
  - However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

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POLLING QUESTION

IIA Standard 1210 A.3 states internal auditors must have _____ _____ of key information technology risks and controls….

a. Prudent knowledge
b. Expert knowledge
c. Sufficient knowledge
d. Beginner's knowledge

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GOLD NUGGET

- GTAG – Global Technology Audit Guide
- Prepared by The IIA, GTAG is written in straightforward business language to address timely issues related to information technology (IT) management, risk, control, and security
- **HERE'S THE KICKER** – IIA members access GTAG's **FREE**!

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GENERAL IT GUIDANCE

- IIA GTAG Series
- ISACA
- CobiT

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ALL GTAG'S:

Title	Date
NEW! Assessing Cybersecurity Risk: Roles of the Three Lines of Defense	September 2016
Auditing Application Controls (Previously GTAG 8)	January 2009
Auditing IT Governance (Previously GTAG 17)	July 2012
Auditing IT Projects (Previously GTAG 12)	March 2009
NEW! Auditing Smart Devices: An Internal Auditor's Guide to Understanding and Auditing Smart Devices	August 2016
Auditing User-developed Applications (Previously GTAG 14)	June 2010
Business Continuity Management (Previously GTAG 10)	January 2008
Change and Patch Management Controls: Critical for Organizational Success, 2nd Edition (Previously GTAG 2)	March 2012
Continuous Auditing: Coordinating Continuous Auditing and Monitoring to Provide Continuous Assurance, 2nd Edition (Previously GTAG 3)	January 2009
Data Analysis Technologies (Previously GTAG 16)	August 2011
Developing the IT Audit Plan (Previously GTAG 11)	January 2009
Fraud Prevention and Detection in an Automated World (Previously GTAG 13)	December 2009
Identity and Access Management (Previously GTAG 9)	January 2009
Information Security Governance (Previously GTAG 15)	June 2010
Information Technology Outsourcing, 2nd Edition (Previously GTAG 7)	June 2012
Information Technology Risk and Controls, 2nd Edition (Previously GTAG 1)	March 2012
Management of IT Auditing, 2nd Edition (Previously GTAG 4)	January 2013

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GTAG I – CATEGORIES OF IT KNOWLEDGE

- Defines three categories of IT knowledge for auditors:
  - **Category I:** Knowledge of IT needed by all professional auditors, from new recruits up through the CAE
  - **Category II:** Knowledge of IT needed by audit supervisors
  - **Category III:** Knowledge of IT needed by IT Audit Specialists

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CATEGORY I KNOWLEDGE

- Understanding concepts such as applications, operating systems and systems software, and networks
- IT security and control components such as perimeter defenses, intrusion detection, authentication, and application system controls
- Understanding how business controls and assurance objectives can be impacted by vulnerabilities in business operations and the related and supporting systems, networks, and data components
- Understanding IT risks without necessarily possessing significant technical knowledge

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POLLING QUESTION

Who are the Global Technology Audit Guides (GTAG), published by the Institute of Internal Auditors, intended for?

a) IT auditors who would like to further their understanding of IT Audit.
b) Business auditors who need a base level of IT knowledge.
c) Chief Auditors who need to be able to explain IT audit to the Audit Committee.
d) Business auditors working towards their Certification in Information Systems auditing.

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CORPORATE GOVERNANCE

Source: IIA.org

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WHAT IS ORGANIZATIONAL GOVERNANCE?

- Policies, processes, and structures used by an organization to direct and control its activities, to achieve its objectives, and to protect the interests of its diverse stakeholder groups in a manner consistent with appropriate ethical standards

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GOVERNANCE ENSURES THE ORGANIZATION:

- Complies with society's legal & regulatory rules
- Satisfies the generally accepted business norms, ethical precepts, and social expectations of society
- Provides overall benefit to society and enhances interests of stakeholders
- Reports fully and truthfully to its owners, regulators, other stakeholders, and general public to ensure accountability for its decisions, actions, conduct and performance

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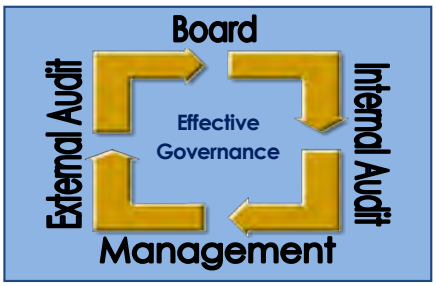
IIA CORPORATE GOVERNANCE MODEL



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POLLING QUESTION

What are the four components of the IIA Corporate Governance Model?

a) Board, Internal Audit, Audit Committee, Leadership
b) Board, Internal Audit, Management, External Audit
c) Audit Committee, Board, Facilities, Internal Audit
d) Board, External Audit, Audit Committee, Internal Audit

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BOARD RESPONSIBILITIES

- Establishes the "tone at the top"
- Focal point for all governance activities
- Ultimate accountability
- Oversees all organizational activities, but does not directly manage any of them

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SENIOR MANAGEMENT

- Establishes strategic direction and an entity's value system (with board oversight)
- Provides assurance of risk management process, operations monitoring, measurement of results, and implementation of timely corrective actions

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OPERATING MANAGEMENT

- Deploys strategy, enforces internal control, and provides direct supervision for areas under its control
- Accountable to executive management and ultimately the board for implementing and monitoring the risk management process and establishing effective and appropriate internal control systems

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EXTERNAL AUDITING

- Provides independent assurance on the financial statement preparation and reporting activities in accordance with applicable regulations and accounting principles

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STANDARD 2130

- IA should assess and make recommendations for improving the governance process:
  - Promoting appropriate ethics & values
  - Ensuring effective performance management
  - Effective communication of risk & control information
  - Effective coordinating of activities & communication between Board, External Auditors, Internal Auditors & Management

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POLLING QUESTION

What function has ultimate accountability for the organization?

a) Management
b) Internal Audit
c) The External Auditor
d) The Board of Directors

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THREE LINES OF DEFENSE

SOURCE: IIA Position Paper – The 3 Lines of Defense in Effective Risk Management and Control

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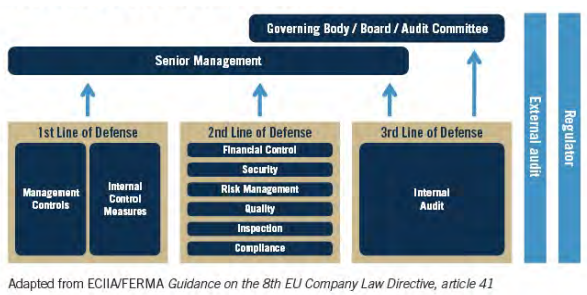
THREE LINES OF DEFENSE



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

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3LOD - LEVELS

- Functions that own and manage risks (First Line)
- Functions that oversee risks (Second Line)
- Functions that provide independent assurance (Third Line)

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POLLING QUESTION

Which line of defense (LOD) does the Internal Audit function fall under?

a) 1st LOD
b) 2nd LOD
c) 3rd LOD
d) 4th LOD

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1ST LINE: FUNCTIONS THAT OWN & MANAGE RISK

- Responsible for implementing corrective actions to address process and control deficiencies
- Responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis
- Identifies, assesses, controls, and mitigates risks, guiding the development and implementation of internal policies and procedures and ensuring that activities are consistent with goals and objectives.
- Mid-level managers design and implement detailed procedures that serve as controls and supervise execution of those procedures by their employees
- Adequate managerial and supervisory controls in place to ensure compliance and to highlight control breakdown, inadequate processes, and unexpected events

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2ND LINE: RM & COMPLIANCE FUNCTIONS

- Management establishes various risk management and compliance functions to help build and/or monitor the first line-of-defense controls
- Typical 2nd LoD include:
  - Groups that facilitate and monitor the implementation of effective risk management practices by operational management and assists risk owners in defining the target risk exposure and reporting adequate risk-related information throughout the organization
  - Compliance function to monitor various specific risks such as noncompliance with applicable laws and regulations (Reports directly to senior management, and in some business sectors, directly to the governing body. Multiple compliance functions often exist in a single organization, with responsibility for specific types of compliance monitoring, such as health and safety, supply chain, environmental, or quality monitoring
  - Controllership function that monitors financial risks and financial reporting issues

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2ND LINE: RESPONSIBILITIES

- Supporting management policies, defining roles and responsibilities, and setting goals for implementation
- Providing risk management frameworks
- Identifying known and emerging issues (see IIA Hot Topics 2016)
- Identifying shifts in the organization's implicit risk appetite (what is risk appetite?)
- Assisting management in developing processes and controls to manage risks and issues
- Providing guidance and training on risk management processes
- Facilitating and monitoring implementation of effective risk management practices by operational management
- Alerting operational management to emerging issues and changing regulatory and risk scenarios
- Monitoring the adequacy and effectiveness of internal control, accuracy and completeness of reporting, compliance with laws and regulations, and timely remediation of deficiencies

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3RD LINE: INTERNAL AUDIT

- Provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defense achieve risk management and control objectives
- **Scope of Assurance, which may include:**
  - Efficiency and effectiveness of operations; safeguarding of assets; reliability and integrity of reporting processes; and compliance with laws, regulations, policies, procedures, and contracts
  - All elements of the risk management and internal control framework, which includes internal control environment
  - All elements of an organization's risk management framework information and communication; and monitoring
  - Overall entity, divisions, subsidiaries, operating units, and functions — including business processes, such as sales, production, marketing, safety, customer functions, and operations — as well as supporting functions (e.g., revenue and expenditure accounting, human resources, purchasing, payroll, budgeting, infrastructure and asset management, inventory, and information technology)

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INTERNAL AUDIT ANNUAL PLANNING

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GUIDANCE ON PLANNING AND SCHEDULING OF ENGAGEMENTS

- CAE has a responsibility to assure the audit committee that the outcomes of planned internal audits will result in maximum value to the organization in relation to their cost

IIA Professional Standard 2010 requires:

- CAE should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.
- Plan should be:
  - Detailed enough to enable the internal audit activity to achieve the objectives of internal auditing that are set forth in its mission statement and charter document
  - Plan should also be based on an assessment of risks throughout the organization

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GUIDANCE ON PLANNING AND SCHEDULING OF ENGAGEMENTS

- Practice Advisory 2010-1, *Planning* explains in paragraph 1 the process as establishing: goals, engagement work schedules, staffing plans and financial budgets, and activity reports
- Practice Advisory (2010-1) goes on in paragraph 4 to outline various factors that should be considered in establishing planning and scheduling priorities:
  - Dates and results of the last engagement
  - Updated assessments of risks and effectiveness of risk management and control processes
  - Requests by the board and senior management
  - Current issues relating to organizational governance
  - Major changes in the enterprise's business, operations, systems, and controls
  - Opportunities to achieve operating benefits
  - Changes to and capabilities of the audit staff

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AUDIT RISK ASSESSMENT

- Audit Risk assessment is the identification and analysis of relevant risks to the achievement of an organization's objectives, for the purpose of determining how those risks should be managed
- Risk assessment implies an initial determination of operating objectives, then a systematic identification of those things that could prevent each objective from being attained. In other words, it's an analysis of what could go wrong
- Not all risks are equal. Some are more likely than others to occur, and some will have a greater impact than others if they occur. So, once risks are identified, their **probability** and **significance** must be assessed
- Risk assessment process is an ongoing one. Internal and external threats constantly develop, presenting new hazards to the organization
- Change itself is a risk, and management must continually adapt its policies and procedures to manage its changing risks to a comfortable level

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POLLING QUESTION

What is the role of the Chief Audit Executive (CAE) in annual audit planning?

a) To assure the audit committee that the outcomes of planned internal audits will result in maximum value to the organization in relation to their cost.
b) To speak with stakeholders from each department to figure out if they should be included in the plan.
c) To ensure each function is audited once a year.
d) To ensure all controls of the organization will be tested each year.

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POLLING QUESTION

What is one of many things to consider when developing the annual audit plan?

a) The relationship the CAE has with stakeholders.
b) The number of controls present in the Auditable Entity.
c) The presence of opportunities to achieve operating benefits for the organization.
d) The relationship the engagement team has with stakeholders.

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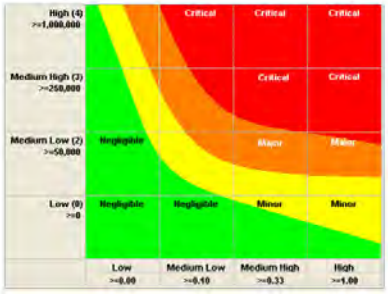
SAMPLE HEAT MAP



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AUDIT RISK ASSESSMENT - OVERVIEW

- Define the audit universe and identify the auditable units within the entity for which these analyses will be carried out.
- Identify appropriate risk factors designed to reflect management's concerns.
- Evaluate risk factors (e.g., heat map) so that the more important risk factors play a more prominent role in the risk assessment process than less important risk factors.
- Develop a combination rule for each audit unit which will properly reflect its riskiness over several risk factors that have been identified and a method of setting audit priorities for the audit units.
- Once audit units have been rated according to their riskiness, it is important to have a mechanism for assigning them to audit frequency categories and a mechanism for applying variable audit scope or intensity of auditing commensurate with the importance of the audit unit.

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THE INTERNAL AUDIT PROCESS

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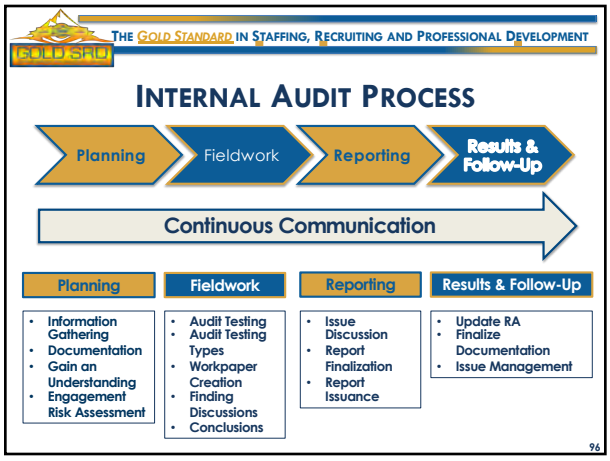

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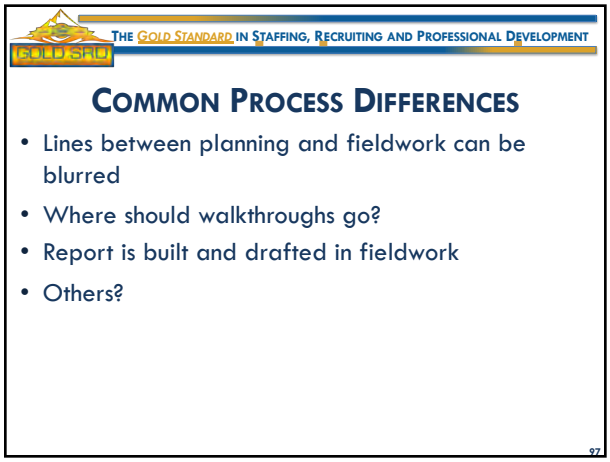

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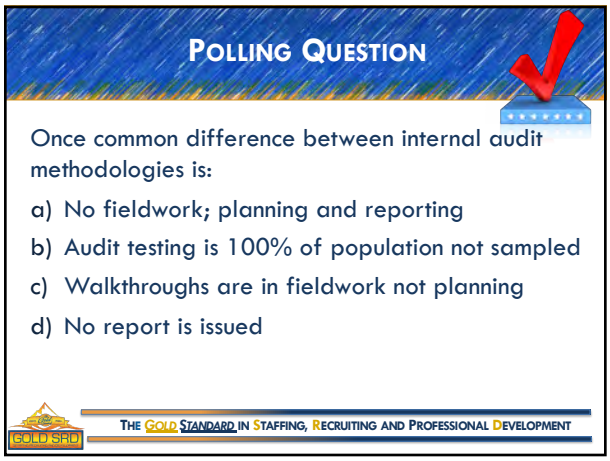

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Planning

ENGAGEMENT PLANNING

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PRELIMINARY ENGAGEMENT-LEVEL RISK ASSESSMENT (INHERENT RISK)

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PRELIMINARY RISK ANALYSIS (PRA)

- Risk - Function of probability and potential impact
  - Each business function or entity has approved tolerance levels for risk exposure
  - Risk exposure tolerance must be monitored to determine whether it is increasing, decreasing, or remaining stable
- Key to an effective PRA is understanding the goals and objectives of an audit
  - The objective of an audit is not to perform the audit
  - Why is this audit being performed?
  - How can we narrow the focus of the audit to the greatest risks?
  - Why was it identified as a risk?
  - Why was it deemed important enough to appear in the audit plan?
- Information collected alters audit scope
- Higher risk = More testing
- Lower risk = Less/possibly no testing
- A good risk analysis refocuses the audit to the most relevant points (this is where real value is added!)

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ASSESS INHERENT RISK – WHAT IS IR?

Inherent Risk: The risk that an activity would pose if ***no controls*** or other mitigating factors were in place (the gross risk or risk before controls)

- Tempting to equate Inherent Risk to Cost, since both terms refer to the importance of a process or asset to a business before controls ("vulnerabilities") are considered
- Alternatively, Inherent Risk could be equated to the Probability that records are incorrect
- Inherent Risk is not always HIGH!

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POLLING QUESTION

What is the definition of inherent risk?

a) The risk that is left after consideration of mitigation and controls in place.
b) The risk level that is calculated by performing the risk assessment.
c) The risk that exists before any controls or mitigation are applied.
d) The risk that is caused by inheriting employees from a downsizing department.

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AUDIT PLANNING PROCESS

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ELEMENTS OF PRELIMINARY WORK

1. Define Objectives
   a. Define Business Objectives for Area Under Review (verified in Interviewing)
   b. Define Business Risks to Meeting Those Objectives (verified in Interviewing)
   c. Define Preliminary Audit Objectives (Risk-Based)
2. Define Scope (Sufficient)
3. Knowledge Gathering (Readily Available)
4. Authoritative Research
5. Interview Management (Who/What/Why/When) – Covered Later in Course
6. Identify Internal Controls (Key vs. Non-Key) – Covered Later in Course
7. Walkthroughs/Narratives/Documentation
8. Assess Key Control Design
9. Resource Allocation (Appropriate)
10. What Else Can we Provide?

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1. DEFINE PRELIMINARY AUDIT OBJECTIVES

- General idea (initial perspective) as to what we should be auditing and why we are auditing it
- Define Preliminary Audit Objectives
  - Why are you performing this audit?
  - What is the point of this audit?
  - What are the expected outcomes?
  - What are the expected benefits?

NOTE: Audit Objectives cannot be developed without understanding the (a) business objectives and (b) risks to those objectives!

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POLLING QUESTION

What must be understood to develop audit objectives?

a) The number of times the entity has been audited and how previous findings were remediated.
b) The org structure of the entity.
c) How to effectively measure the anticipated outcome of the audit.
d) The objectives of the business and the risk they impose.

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AUDIT ENGAGEMENT – PLANNING OBJECTIVES = SMART

- Specific
- Measurable
- Achievable
- Results-Orientated
- Time-Based

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DEFINE AUDIT OBJECTIVES – COMMON PITFALLS

- Objectives are not **SMART**!
- Too General to Try to Cover Everything
- Too Specific – Limits Possible Scope
- Do Not Make Sense to Auditee

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POLLING QUESTION

What does SMART mean?

a) Smart, Measurable, Articulative, Reliable, Tenacious.

b) Specific, Measurable, Achievable, Results-Oriented, Time-Based.

c) Specific, Manageable, Attainable, Reachable, Timely.

d) Steadfast, Minimal, Articulative, Ready, Teachable.

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4. AUTHORITATIVE RESEARCH

- Audit Director's Roundtable
- Knowledgeleader.com
- www.aicpa.org
- www.auditnet.org
- www.theiia.org
- www.isaca.org
- www.acuia.org
- www.sec.org
- Peer Groups

"I call it, 'Research Paper Lite.' It contains a third fewer facts, but you'd never know it."

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6. INTERNAL CONTROLS

- Controls are relevant for any type of audit and any process
- All controls should be identified (not necessarily by internal audit) and key controls (defined later in section) should be identified
- Throughout the process, review for:
  - Controls that make sense
  - Controls that are efficient
  - Are there better ways to do things?

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CONTROL ASSERTIONS

- **Validity -** Ensure that recorded transactions are the ones that should have been recorded.
- **Completeness** - Ensure that valid transactions are not omitted entirely from the accounting records.
- **Authorization -** Ensure that transactions are approved before they are recorded.
- **Accuracy -** Ensure that dollar amounts are figured correctly.
- **Classification** - Ensure that transactions are recorded in the right accounts.
- **Accounting and Posting -** Ensure that the accounting process for a transaction is completely performed and in conformity with GAAP.
- **Proper period -** Ensure that transactions are accounted for in the period in which they occur.

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CONTROL SPECIFICS

Each control should describe the actions taken by management to mitigate the related risk, including:

- **WHO** (or what system) performs the control activity
- **WHAT** is used to perform the activity (reports/systems)
- **WHEN** (how often/relational timing) the activity is performed
- **WHERE** is the activity is performed, if relevant to mitigating the risk
- **WHY** the activity is performed
- **HOW** (specific action) the activity is performed

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CONTROLS ARE EITHER:

- **Preventive Control** - Designed to prevent or deter the risk event from occurring
- **Detective/ Corrective Control** - Designed to discover and/or correct the risk event that has already occurred. Detective controls must occur on a timely basis (before the event has had an unacceptably negative impact) to be considered effective

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CONTROL TYPES

- **Control:** Activity conducted by management to mitigate risks to an acceptable level and increase the likelihood that objectives will be achieved
- **Key Control:** Strongest control designed to mitigate a risk; usually addresses three control assertions or more
- **Compensating Control:** Control designed to supplement key controls that are either ineffective or cannot fully mitigate the risk themselves to an acceptable level.
- **Complementary Control:** Control that must be combined with one or more other controls to mitigate the risk to an acceptable level
- **Monitoring Control:** Control that provides management timely and accurate feedback on compliance and effectiveness of other controls; must have a strong level of precision

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POLLING QUESTION

What is NOT a control type?

a) Risk Control

b) Key Control

c) Monitoring Control

d) Complementary Control

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7. WALKTHROUGHS/NARRATIVES/DOCUMENTATION

Walkthrough - Procedure used during an audit of a process to gauge its reliability

- Walkthough tests trace the transaction step-by-step through the process from its inception to the final disposition/recording

Other Benefits:

- Validate Documentation
- Reliability of Information
- Get to know and understand personnel
- Verify control design effectiveness

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WALKTHROUGH QUESTIONS

- Use Open-Ended questions
- Get them talking about their job and what they do
- It is not the first question, it is usually the next question
  - Interfaces
  - Reports
  - When discussing controls, make sure to ask if the control:
    - Is in the system?
    - If it is manual, could it be done in the system?
  - Include SME with Process Owner in interviews?

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POLLING QUESTION

What is an effective strategy to start a walkthrough?

a) Use open-ended questions to get the person talking about their job and what they do.
b) Ask specific questions that have only one viable answer.
c) Include every person in the department in a round table discussion about the business.
d) Only interview the person with the most tenure in the department.

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8. ASSESS KEY CONTROL DESIGN

- Determine whether each key control is designed adequately to mitigate the associated risk(s)
- Primary focus of testing - Determine whether the key controls are designed adequately to provide reasonable assurance that the risks are adequately
- When assessing control design, focus on:
  - Alignment between controls and the business and audit risks identified
  - Whether controls satisfy the information processing objectives (Completeness, Accuracy, Validity, Restricted Access) and relevant financial statement assertions
  - Knowledge and experience of the people involved in performing the controls
  - Segregation of duties relevant to the process being controlled

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10. WHAT ELSE CAN WE PROVIDE?

- Always ask the auditee "how else can we help you?" (last question)
  - Shows trust
  - Builds confidence
  - We are not on the other team
  - We want to help
  - We are consultants, not auditors

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POLLING QUESTION

What is an effective way to build trust with the auditee?

a) Let them know that you're only performing the audit to "check the box" and will not be digging too deep.
b) Share interesting information that you learned from another department.
c) Give them a gift card to the local coffee shop.
d) Ask if there is anything else you can do for them and reassure that you're here to help and consult.

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UPDATED ENGAGEMENT-LEVEL RISK ASSESSMENT (RESIDUAL RISK)

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UPDATING THE RISK HYPOTHESIS

- No steadfast template…but be consistent!
- Numerical Ratings or H/M/L
- Show Starting Point (prior to planning), Planning and End Point (prior to fieldwork) – walk auditee through the logic

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RESIDUAL RISK

- **Residual Risk:** The risk that remains ***after controls*** are taken into account (the net risk or risk after controls)
- Commonly known as Risk (generalized)

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POLLING QUESTION

What is the definition of residual risk?

a. The risk that remains ***before controls*** are taken into account (the net risk or risk after controls)
b. The risk that remains ***without controls*** in the process (the net risk or risk after controls)
c. The risk that remains ***after controls*** are taken into account (the net risk or risk after controls)
d. The risk that remains ***when controls*** are taken into account (the net risk or risk after controls)

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BUILDING AN EFFECTIVE AUDIT WORKPROGRAM

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WHAT SHOULD BE IN AN AUDIT PROGRAM?

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WORKPROGRAM CONTENTS

- Basic criteria for audit programs include:
  - Carefully stated objectives, agreed to by the client.
  - Programs should be tailor-made to the audit assignment.
  - Each step of the program should include the reason for the step.
  - Step priority should be indicated.
  - Programs should be flexible and permit use of initiative and judgment.
  - Audit work requested by the client should be identified.
- One of the objectives of the audit is to ensure that the client is effectively managing risks. During the audit, the auditor should maintain a record of the accomplishment of this element of the audit.

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WRITING WORKPROGRAMS – LEADING PRACTICES

- Tailor the program to fit the specific audit as to the type of organization, personnel involved, systems and procedures in effect, degree of sophistication, etc.
- Each work program step should clearly set forth the work to be completed and the reason (objective) for performing
  - Each audit team member must fully understand and comprehend why each audit step is being completed (e.g. succession planning)
  - Minimizes the inclusion of possible unnecessary work steps.
  - Efficient and effective review of audit work papers
- Program should be flexible and permit application of initiative in deviating from prescribed procedures
- Provide for the development of individual findings:
  - Performance is analyzed and reported
  - Evidence to support conclusions
  - Evaluate performance and evidence in comparison with relevant standards

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DO NOT FORGET!

- How will testing be performed?
- How will samples be selected?
- What is the source(s) of information?
- What types of information are needed?
- Must evaluate sufficiency, reliability, relevance?
- How will the objectives be tested?
- How reliable does the testing method need to be?
- Can we integrate other audits?
  - IT General Controls/Application Controls
  - Fraud Risk Assessment/Red Flags

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EVIDENCE REQUIREMENTS

- **Sufficient** – Measure of quantity of the evidence; should be collected and evaluated sufficient information so that the reasonably informed unbiased person agreed with the auditor's conclusions.
- **Reliable** – Comprises the measure of reliability and adequacy of the source of evidence and the method of seeking thereof; generally, information received from a third party that is independent is more reliable; the evidence is reliable where it is gained via direct physical examination, observations and inspection and where it is received in the documentary form, rather than verbally. Degree of information reliability increases where it is received from several sources;
- **Adequate** – Measure of adequacy of the evidence. Audit evidence may be physical, testimonial, documentary and analytical.

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POLLING QUESTION

What are three types of evidence requirements?

a) Sufficient, Reliable, Adequate

b) Detailed, Measurable, Good Enough

c) Ample, Attested, Authentic

d) Sufficient, Thorough, Risk-Based

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FRAUD AUDITING

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FRAUD QUIZ

1. What % of its revenue does the typical organization lose to fraud each year? **5%**
2. How many months does a fraud usually last before being reported? **14 months (decreased from 18 months from '16 and 16 months in '18)**
3. What is the most common type of occupational fraud? **Asset Misappropriation**

Source – Report to the Nations on Occupational Fraud and Abuse – 2020 Global Fraud Study, Association of Certified Fraud Examiners

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POLLING QUESTION

What % of its revenue does the typical organization lose to fraud each year?

a) 2%
b) 10%
c) .5%
d) 5%

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POLLING QUESTION

How many months does a fraud usually last before being reported?

a) 24
b) 18
c) 16
d) 14

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FRAUD QUIZ CONTINUED

4. What is the most-costly occupational fraud? Least? **Financial Fraud (Least Common & Most Costly) – 10%/$954k median loss; Asset Misappropriation (Most Common & Least Costly) - 86%/$100k**
5. How many prior offenses have occupational fraudsters often committed? **None! Most are first offenders with clean histories**
6. Is there a direct correlation between the amount of fraud loss and level of employee? **Higher the fraud loss are committed by fraudsters that are owner/executives.**

Source – Report to the Nations on Occupational Fraud and Abuse – 2020 Global Fraud Study, Association of Certified Fraud Examiners

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POLLING QUESTION

How many prior offenses have occupational fraudsters often committed?

a) 3
b) 2
c) 1
d) 0

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THE FRAUD TRIANGLE

Opportunity
- Must gain access to assets/records
- Can be controlled/prevented by organization

Rationalization
- Follow through and commit the fraud
- Can be controlled/prevented by organization

Pressure
- The more incentive, the easier it is to justify
- Financial or personal problems, financial pressure, mental instability

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RED FLAGS ARE INDICATORS, NOT PROOF

- Living beyond means
- Financial difficulties
- Close association with vendors/customers
- Poor internal controls
- Employee morale changes
- Employee turnover
- Pressure to meet targets
- Management infighting
- Addiction problems

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EMPLOYEE RED FLAGS

- Significant change in lifestyle, such as new wealth
- Financial difficulties may create need
  - Gambling or drug addiction
  - Infidelity is an expensive habit
- Criminal background
- Chronic legal problems
- Dishonest behavior in other parts of life
- Beat the system
  - Break rules commonly
- Chronic dissatisfaction with job

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ORGANIZATIONAL RED FLAGS

- Lack of communication of expectations
- Too much trust in key employees
- Lack of proper authorization procedures
- Lack of attention to detail
- Changes in organizational structure
- Tendency towards crisis management

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FINANCIAL DOCUMENT RED FLAGS

- Missing/Altered documents
- Excessive number of voided documents
- Documents not numerically controlled
- Questionable handwriting or authorization
- Numerous duplicate payments
- Unusual billing addresses
- Address of employee same as vendor
- Duplicate or photocopied invoices
- Invoices not folded for envelope

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ACCOUNTABILITY & CONTROL RED FLAGS

- Lack of segregation of duties
- Lack of physical security and/or key control
- Weak links in chain of controls and accountability
- Missing independent checks on performance
- Weak management style
- Poor system design
- Inadequate training

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POLLING QUESTION

Alicia, the AP Manager, has spent lavishly over the past few weeks, purchasing a Bentley and has been out of the office more than normal. Which red flags is Alicia exhibiting?

a) Living beyond means & Bullying
b) Living beyond means & Excessive Absenteeism
c) Addictive behavior & Excessive Absenteeism
d) Addictive behavior & Bullying

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HOW TO MINIMIZE FRAUD RISK

- Rotate duties in positions susceptible to fraud
- Ensure employees take regular vacations
- Schedule regular independent audits of areas susceptible to fraud
- Ensure background checks including criminal and credit for all employees
- Make sure internal controls are followed
- Ask for documentation
- Ensure that one person does not have total responsibility for a process
- Evaluate performance regularly
- Report suspicious activity

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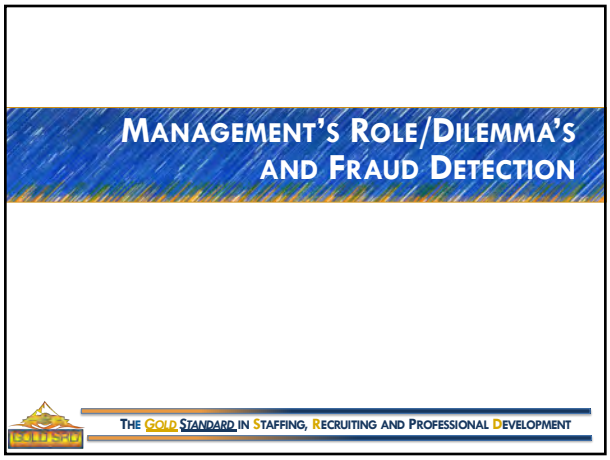

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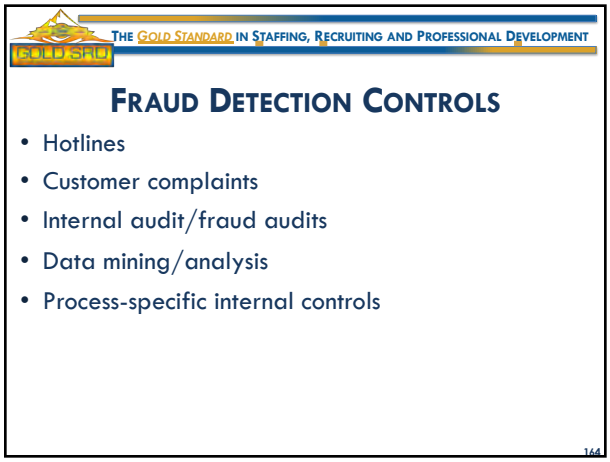

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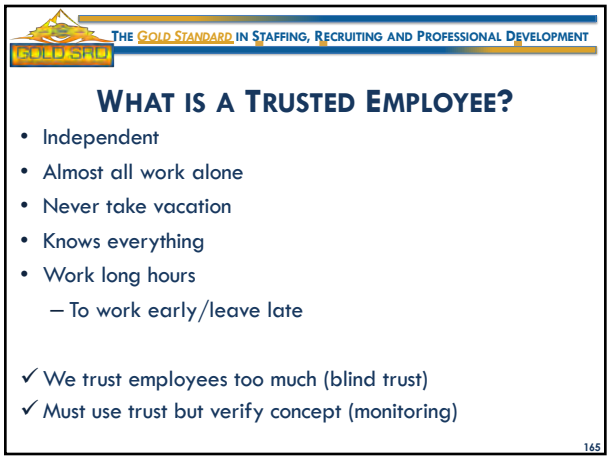

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WHAT IS AN "AT RISK" EMPLOYEE?

- Employee work habits
  (1) Come to work early or leave late
  (2) Works nights and weekends
  (3) Seldom missing for leave or vacation
  (4) Reports to office during brief absences
  (5) Ask others to hold work while gone
  (6) Knows too much
  (7) Too helpful or too involved

The Issue is Control

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POLLING QUESTION

Fraud is difficult to undercover because:

a) The profile of a fraudster and trusted employee is virtually the same
b) The profile of a fraudster and a trusted auditor is virtually the same
c) The profile of a fraudster and a trusted advisor is virtually the same
d) The profile of a fraudster and a good employee is virtually the same

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MANAGEMENT'S ROLE IN FRAUD

- Establish, maintain and evaluate antifraud programs and controls:
  - Perform fraud risk assessment (FRA)
  - Create strong control environment
  - Design and implement antifraud programs and controls
  - Communicate information related to antifraud programs
  - Monitor the effectiveness of antifraud programs and controls

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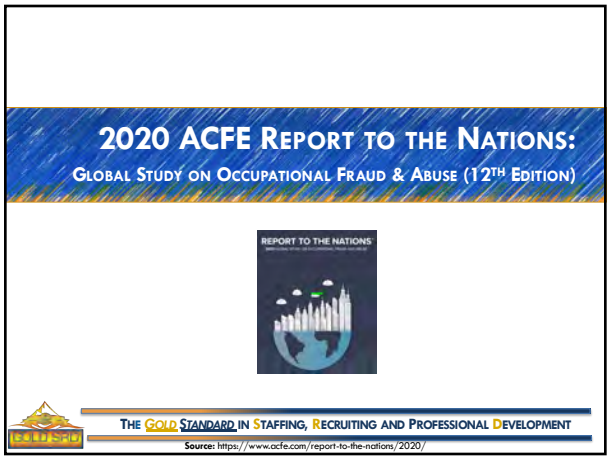

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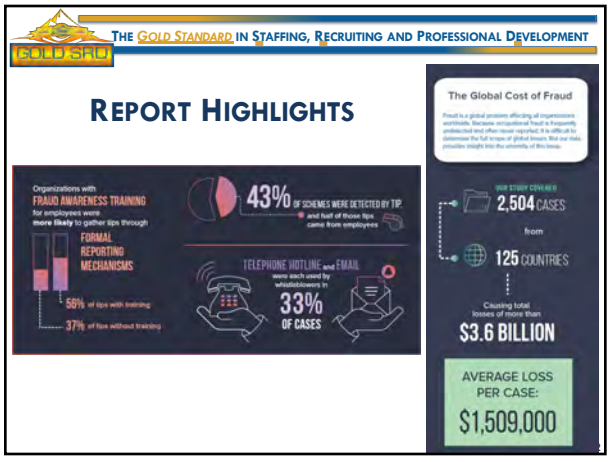

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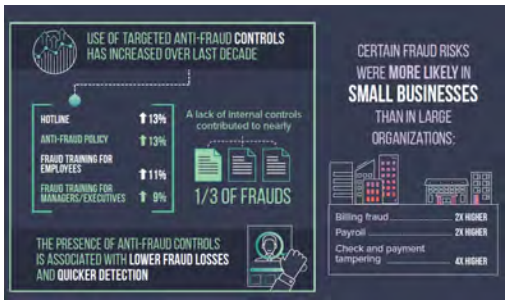
REPORT HIGHLIGHTS



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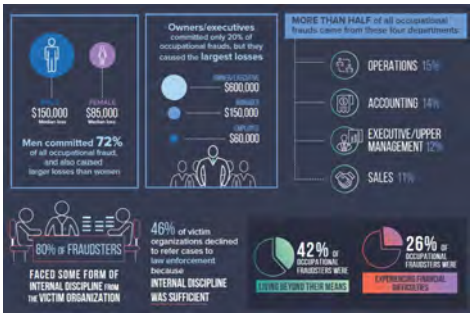
REPORT HIGHLIGHTS



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POLLING QUESTION

More than half of occupational frauds come from these departments:

a) Payables, Accounting, Exec Management, Sales
b) Operations, Accounting, Exec Management, Sales
c) Payables, Accounting, Exec Management, Supply Chain
d) Operations, Accounting, Exec Managements, Supply Chain

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CORRUPTION

- Represents one of the most significant risks for organizations in many industries and regions
- Understanding the specific factors involved in corruption schemes can help organizations effectively prevent, detect and investigate them

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PROFILING

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PROFILING

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What are the key characteristics of a fraudster?

GROUP DISCUSSION

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WHAT DOES A WHITE-COLLAR CRIMINAL LOOK LIKE?

- Average age?
- Male/Female?
- Education level?
- Stable/unstable family situation?
- Criminal record?
- Background check?
- Good mental health?
- Position of trust?
- # of Perpetrators?
- Employment-related disciplinary action?
- What else?

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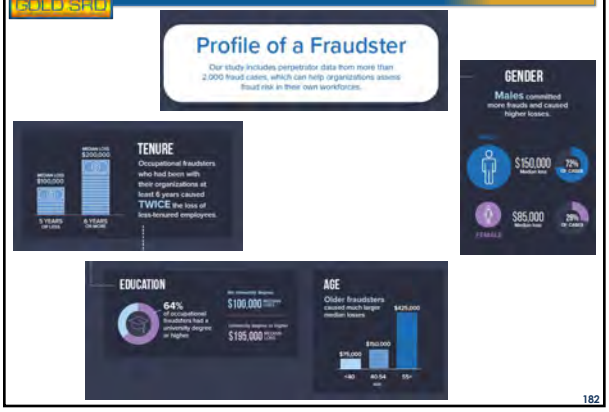

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POLLING QUESTION

Jenny is about to retire from her company after 25 years and at the age of 58. Her nephew David is now starting at the same company our of school at age 22. Based on profiling fraudsters, which of the two would be more prone to fraud and why?

a) Jenny, as she is older and tenured
b) David, as he is younger and tenured
c) Jenny, as she is a female
d) David, as he is a male

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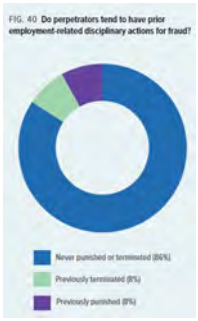
PROFILING STATS



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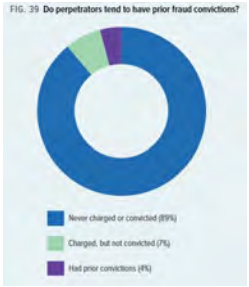
PROFILING STATS



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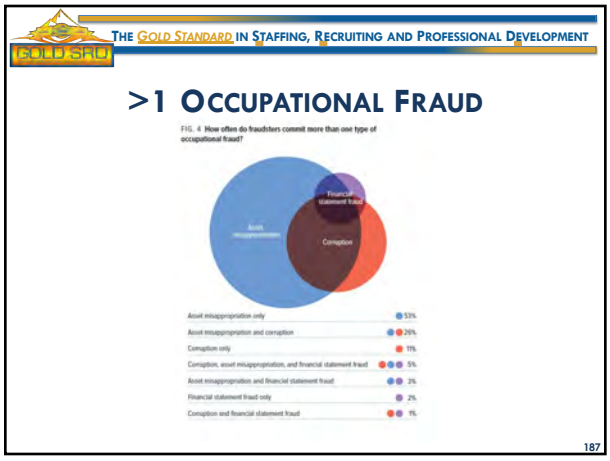

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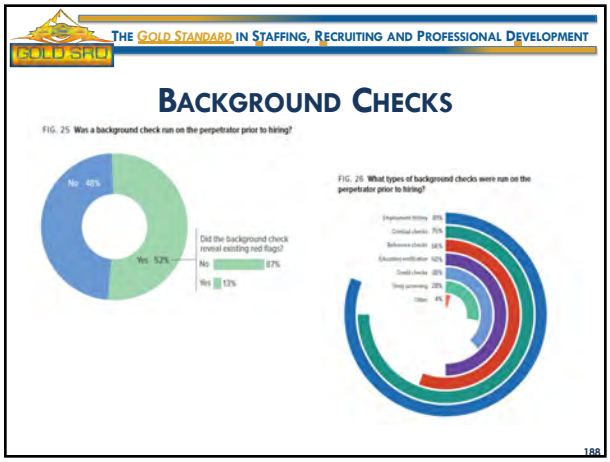

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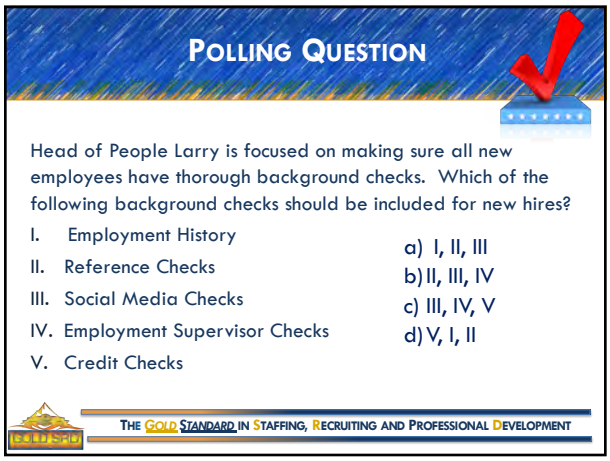

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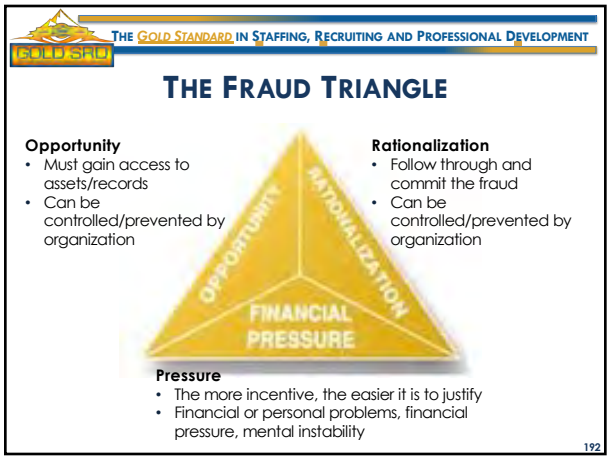

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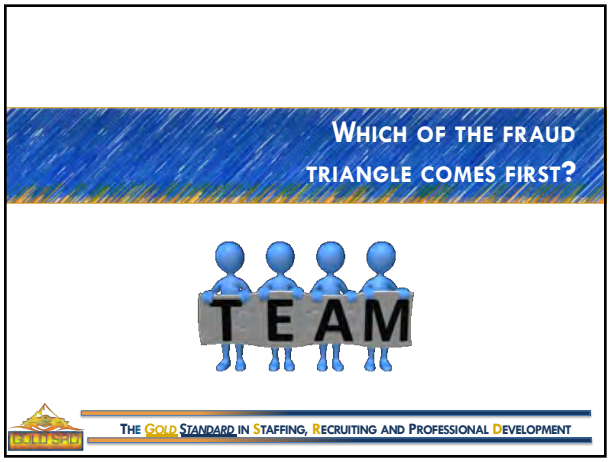

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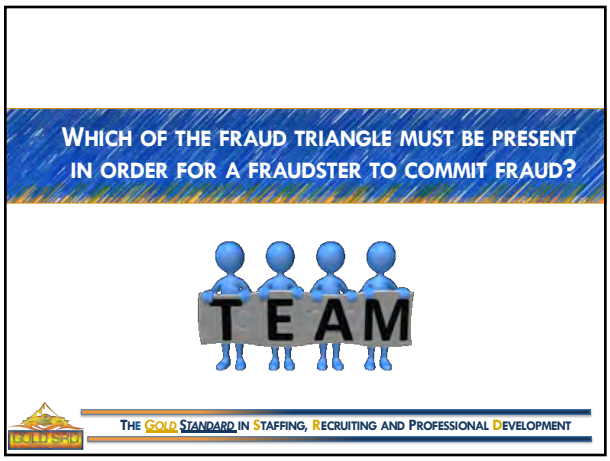

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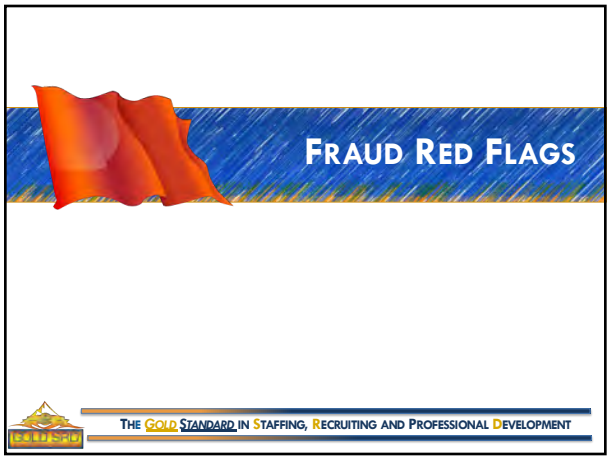

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RED FLAGS ARE INDICATORS, NOT PROOF

- Living beyond means
- Financial difficulties
- Close association with vendors/customers
- Poor internal controls
- Employee morale changes
- Employee turnover
- Pressure to meet targets
- Management infighting
- Addiction problems

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EMPLOYEE RED FLAGS

- Significant change in lifestyle, such as new wealth
- Financial difficulties may create need
  - Gambling or drug addiction
  - Infidelity is an expensive habit
- Criminal background
- Chronic legal problems
- Dishonest behavior in other parts of life
- Beat the system
  - Break rules commonly
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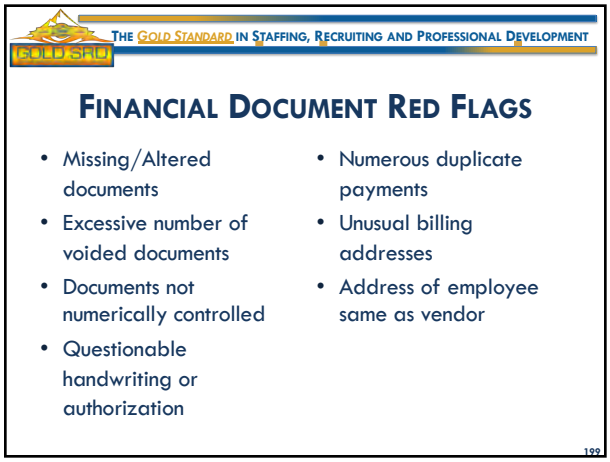

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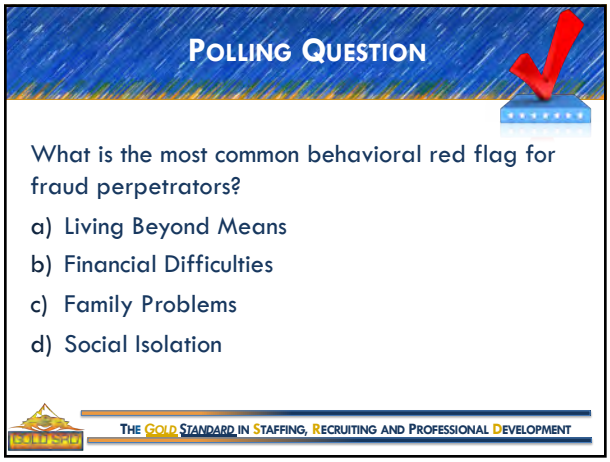

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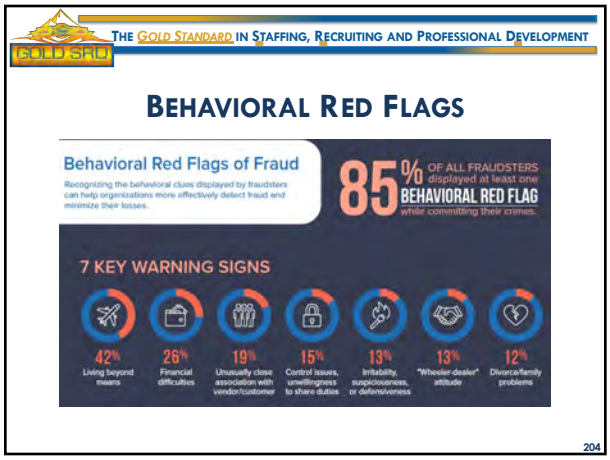

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POLLING QUESTION

What % of all fraudsters display at least one behavioral red flag?

a) 63%
b) 47%
c) 85%
d) 99%

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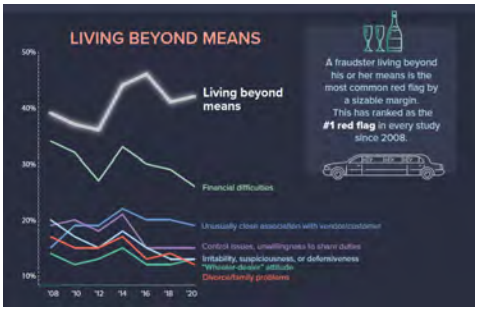
BEHAVIORAL RED FLAGS



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HOW TO MINIMIZE FRAUD RISK

- Rotate duties in positions susceptible to fraud
- Ensure employees take regular vacations
- Schedule regular independent audits of areas susceptible to fraud
- Ensure background checks including criminal and credit for all employees
- Make sure internal controls are followed
- Ask for documentation
- Ensure that one person does not have total responsibility for a process
- Evaluate performance regularly
- Report suspicious activity

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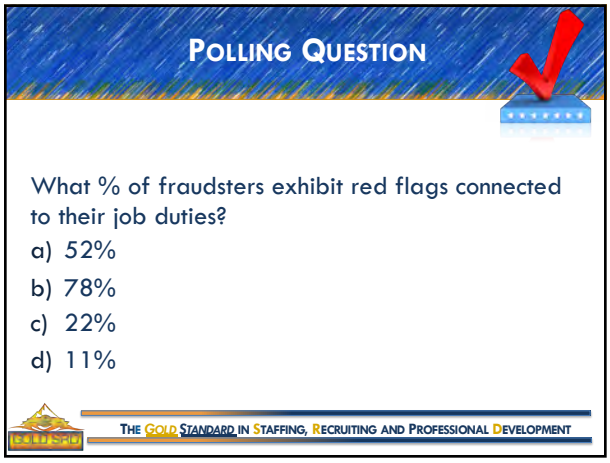

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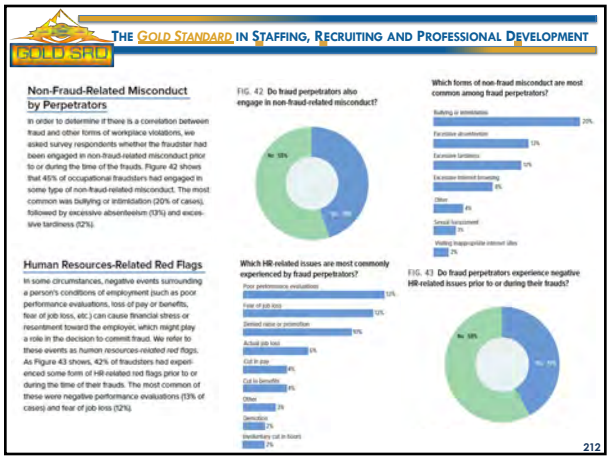

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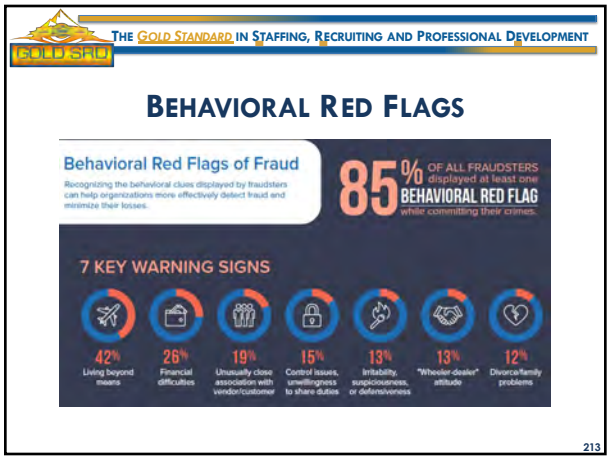
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BEHAVIORAL RED FLAGS
Behavioral Red Flags of Fraud
Recognizing the behavioral clues displayed by fraudsters can help organizations more effectively detect fraud and minimize their losses.
85% OF ALL FRAUDSTERS displayed at least one BEHAVIORAL RED FLAG while committing their crimes.
7 KEY WARNING SIGNS
42% Living beyond means
26% Financial difficulties
19% Unusually close association with vendor/customer
15% Control issues, unwillingness to share duties
13% Irritability, suspiciousness, or defensiveness
13% "Wheeler-dealer" attitude
12% Divorce/family problems
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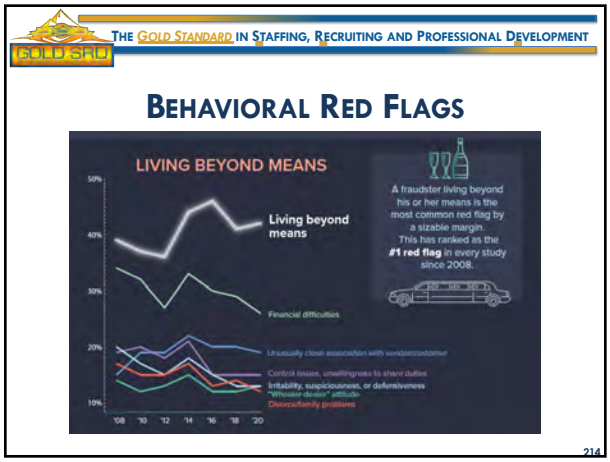
THE GOLD STANDARD IN STAFFING, RECRUITING AND PROFESSIONAL DEVELOPMENT
BEHAVIORAL RED FLAGS
LIVING BEYOND MEANS
Living beyond means
Financial difficulties
Unusually close association with vendor/customer
Control issues, unwillingness to share duties
Irritability, suspiciousness, or defensiveness
"Wheeler-dealer" attitude
Divorce/family problems
A fraudster living beyond his or her means is the most common red flag by a sizable margin. This has ranked as the #1 red flag in every study since 2008.
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THE GOLD STANDARD IN STAFFING, RECRUITING AND PROFESSIONAL DEVELOPMENT
CLASSIFYING RED FLAG BEHAVIOR
JOB PERFORMANCE AS A WARNING SIGN
13% POOR PERFORMANCE EVALUATIONS
13% EXCESSIVE ABSENTEEISM
12% FEAR OF JOB LOSS
12% EXCESSIVE TARDINESS
10% DENIED RAISE OR PROMOTION
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CONTROLS OVERVIEW

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WHAT DO WE DO ON A DAILY BASIS THAT INVOLVES INTERNAL CONTROL?

- Lock-up valuable belongings
- Keep copies of your tax returns and related support
- Balance your checkbook
- Keeping passwords unique and separate
- Planning Ahead
- Home and Car Insurance
- Seat Belts
- Physical Control of Credit Cards

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WHAT IS THE RISK OF WEAK INTERNAL CONTROLS?

Business Interruption

- system breakdowns or catastrophes, excessive re-work to correct for errors.

Erroneous Management Decisions

- based on erroneous, inadequate or misleading information.

Fraud, Embezzlement and Theft

- by management, employees, customers, vendors, or the public-at-large.

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WHAT IS THE RISK OF WEAK INTERNAL CONTROLS?

Statutory Sanctions

- penalties arising from failure to comply with regulatory requirements, as well as overt violations.

Excessive Costs/Deficient Revenues

- expenses which could have been avoided, as well as loss of revenues.

Loss, Misuse or Destruction of Assets

- unintentional loss of physical assets such as cash, inventory, and equipment.

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WHAT IS THE BENEFIT OF STRONG INTERNAL CONTROLS?

- Providing appropriate checks and balances.
- Reducing and preventing errors in a cost-effective manner.
- Ensuring priority issues and risks are identified and addressed.
- Protecting employees & resources.
- Having more efficient audits, resulting in shorter timelines, less testing, and fewer demands on staff.

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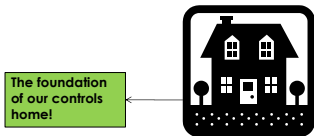
CONTROLS APPLICABLE TO ALL

- **EXERCISE** – Based on your view of internal controls, what controls apply to all processes regardless of type?



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ANSWERS

- Segregation of Duties
- Physical and IT Access
- Review and Reconciliation Controls (Management Oversight)
  - Balance Sheet Reconciliations
  - JE Reviews
- Tiered Approvals
- Policies and Procedures (& Applicable Documentation)

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POLLING QUESTION

Controls that are an integral part of an effective control environment regardless of environment and industry include:

I. Edit Checks
II. Segregation of Duties
III. Logical Access
IV. Management Oversight Controls
V. Application Controls

a) I, II, III
b) II, III, IV
c) III, IV, V
d) V, I, II

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OTHER CONTROLS

- Code of Conduct
- Hotline
- Whistle-blower policy
- Conflict of interest policy
- Fiscal Policy
- Positive Pay

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ANTI-FRAUD EDUCATION

- Employee education
- Anti-fraud culture / awareness
  - Regular, targeted awareness training
  - Fraud hotline
  - Fraud tips
  - Internal control consultation
  - Fraud on-line training modules
  - Fraud web-site
- Anti-fraud policies and programs

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ELEMENTS OF A ROBUST ANTIFRAUD PROGRAM

- Code of ethics
- Declaration of gifts and conflicts of interest
- Fraud control policy
- Whistle-blowing policy and mechanism
- Fraud risk assessment
- Delegation of authority (matrix)
- Business expenses policy
- Human resource policy

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POLLING QUESTION

Elements of a robust antifraud program include:

I. Code of Ethics, Fraud Risk Assessment, Business Expense Policy
II. Conflict of Interest, Declaration of Gifts, Delegation of Authority
III. Whistleblower policy, whistleblower hotline
IV. Command and Control management style, vertical organizational chart
V. Sales incentive compensation plans, Commission-laden compensation plans

a) I, II, III
b) II, III, IV
c) III, IV, V
d) V, I, II

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Fieldwork

FIELDWORK

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WHAT IS AUDIT DOCUMENTATION?

- Principal written record
- Performed in compliance with applicable standards
- Provide a clear link between significant matters
- Contain sufficient information and detail
- Clear understanding of:
  - Purpose of work
  - Work performed
  - Source of the information analyzed and supporting evidential matter obtained, examined, and evaluated
  - Nature, timing, and extent of the auditing procedures planned
  - Conclusions reached

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AUDIT DOCUMENTATION GUIDANCE

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IAPPF

- **2240 – Engagement Work Program**
  - Internal auditors must develop and document work programs that achieve the engagement objectives
- **2240.A1**
  - Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement
  - Work program must be approved prior to its implementation, and any adjustments approved promptly
- **2240.C1**
  - Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement

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IAPPF

- **2310 – Identifying Information**
  - Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives
- **2320 – Analysis and Evaluation**
  - Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations

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WORKPAPERS: OVERVIEW

- At a minimum, audit **documentation** should be sufficient to:
  - Enable reviewers to understand the tests that were conducted, the results thereof, and the evidence accumulated
  - Indicate which members of the engagement team performed and reviewed the work
  - Significant findings or issues should be documented, as should actions taken to address them and the final conclusions reached

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POLLING QUESTION

Workpapers must:

a) Be standalone

b) Allow someone to reperform the work performed

c) Be understandable by a prudent auditor

d) All of the above

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AUDIT DOCUMENTATION – COMMON ERRORS

- Constructing workpapers that sufficiently evidence work performed in an efficient and effective fashion requires judgment, skill, and experience. It is a task that many auditors find to be among the most difficult in performing an audit. Reviewers often note that workpapers are simply incomplete, unreadable, unintelligible, or unwisely constructed. Other more subtle deficiencies, such as the following, have also been noted: Narratives of discussions, meetings, and so forth, have no clear indication as to the relevance to the audit.
- The auditor has failed to properly cross-reference copies of evidential matter to narratives, lead sheets, or tables summarizing sample results.
- Comparative analyses do not provide complete comparisons or analyses.
- Written conclusions are not supported by, or referenced to, evidence.
- Copies of memoranda, invoices, purchase orders, and other forms of evidence have no reference or commentary as to why they are present.
- Copies of computerized reports (in whole or in part) have no indication as to why they are present.
- Copies of flowcharts, procedural narratives, and policy statements do not clearly relate to the audit objective.

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DOCUMENTING AN AUDIT TEST

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AUDIT TEST DOCUMENTATION

- For each test performed, the following should be documented:
  - Testing attributes
  - Sample size
  - Sampling methodology
  - Population and source
  - If exceptions are identified, document what the impact is
  - Document testing results and conclusion

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FOUR ESSENTIAL WORKPAPER CHARACTERISTICS

- **Sufficient** - Factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor
- **Reliable** - Best attainable information through the use of appropriate engagement techniques
- **Relevant** - Supports engagement observations and recommendations and is consistent with the objectives for the engagement
- **Useful** - Helps the organization meet its goals

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AUDIT TESTING

- What do we test against?
- What type of tests for what type of reliability?
- What is our criteria?
- What are we attempting to accomplish?

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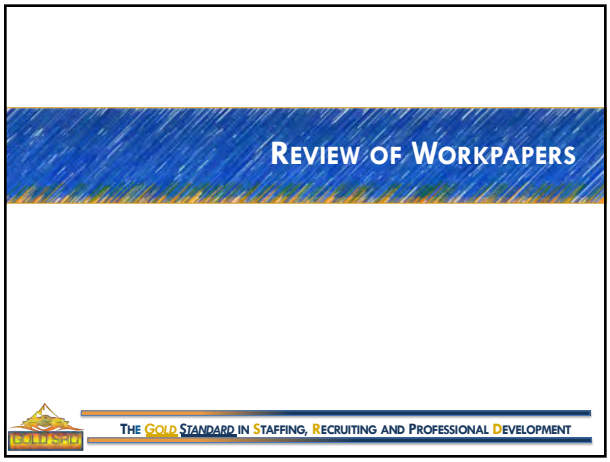

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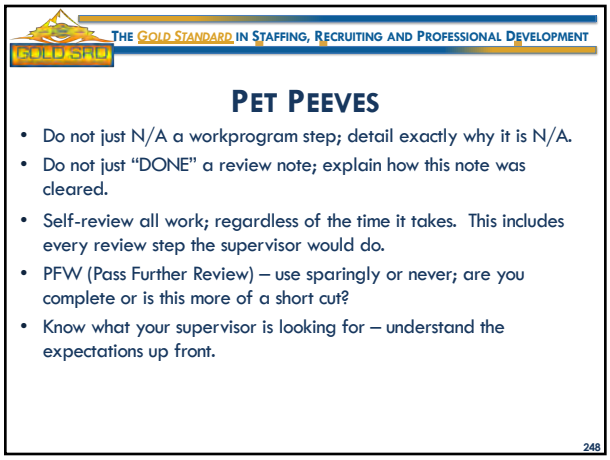

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In your teams, make a list of all common review comments you receive (come up with at least 10-15)

GROUP EXERCISE

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Reporting | Results & Follow-Up

AUDIT WRAP-UP

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FINDINGS

- Issues should be discussed with auditee prior to inclusion in report
- Stick to the facts
- Verify – no opinions
- Level of Finding – direct correlation to level of interest
- Staff – can write findings and Senior can develop and verify recommendation or Staff does it all.

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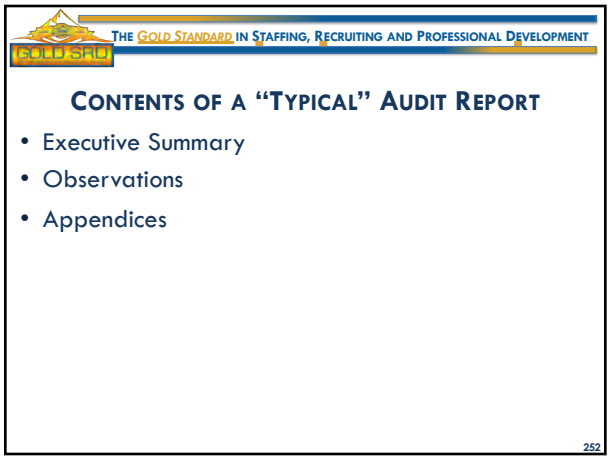

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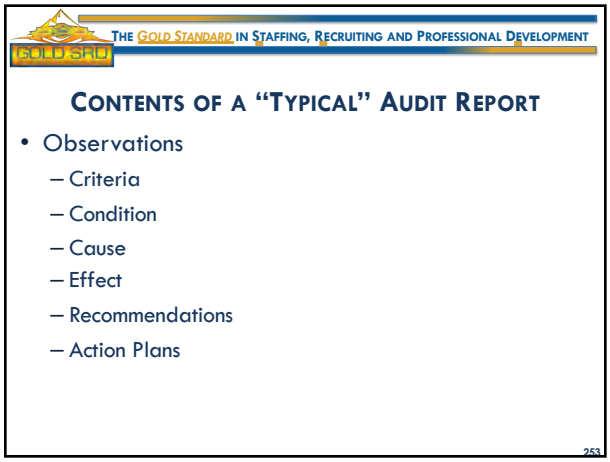

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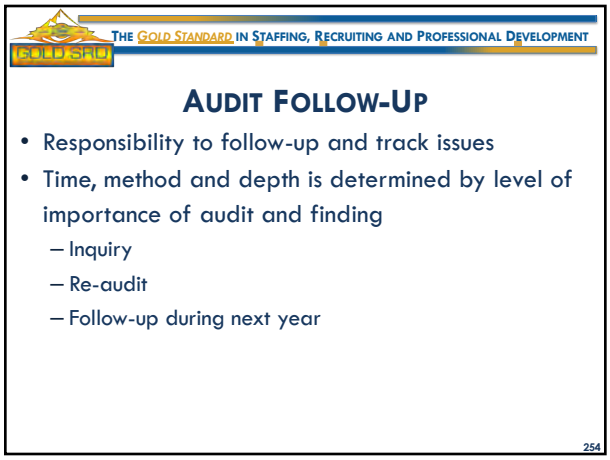

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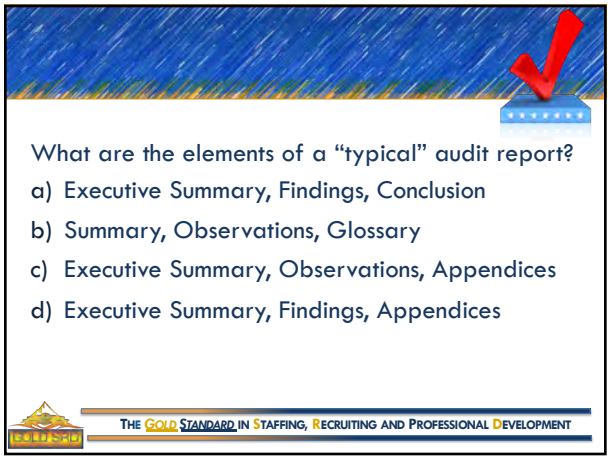

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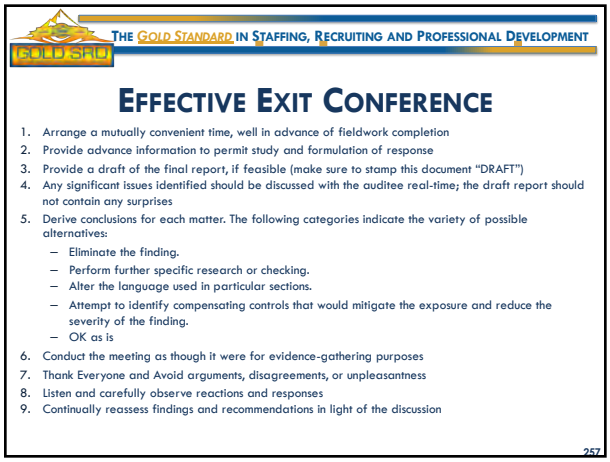

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WHEN DO WE USE AUDIT INTERVIEWS?

- Kick-off Meetings
- Walkthroughs/Process Discussions
- Follow-Up Questions
- Client Requests/Testing Questions
- Presenting Observations
- Closing Meetings
- Continuous Monitoring Discussions

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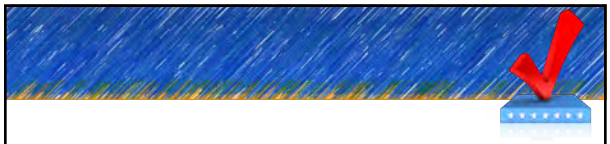

At what stage of the audit is it appropriate to use audit interview?

a) Only during planning

b) During planning or fieldwork

c) During reporting

d) At any phase during the audit

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STEPS IN THE AUDIT INTERVIEW PROCESS

1. **Planning/Preparation**
   a. Objectives
   b. Types of Questions
   c. Background on Interviewee
   d. Information Requests
   e. Participants
   f. Location
   g. Time
2. **Conducting the Interview**
   a. Agenda
   a. Environment
      i. Interviewer(s)
      ii. Participant(s)
   b. Interview Variations
   c. Recording the Interview
   d. Ending the Interview
3. **Interview Results**
   a. Professional Skepticism
   b. Documenting the Interview
4. **Follow-Up**
   a. **Recap with Client (takeaways/deliverables)**

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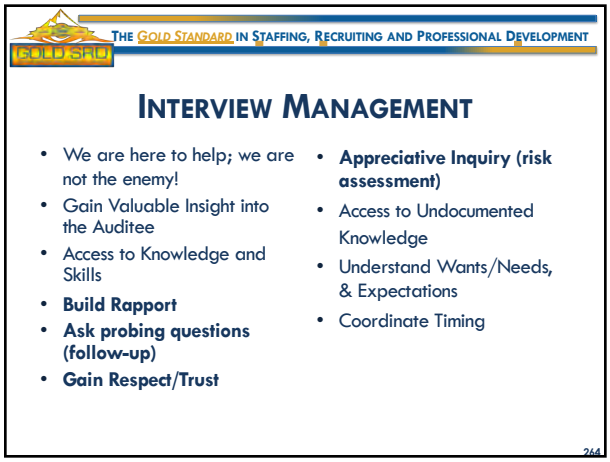

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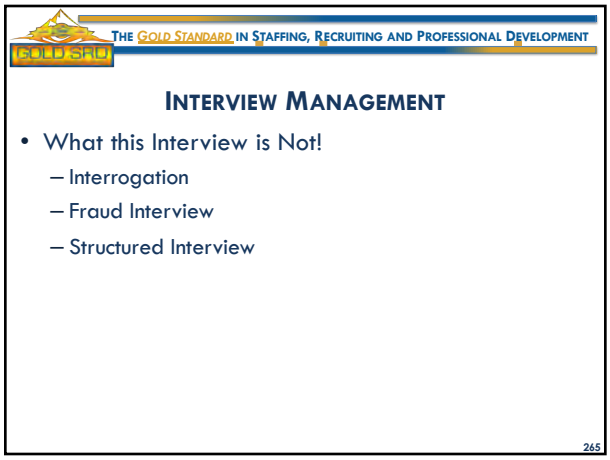

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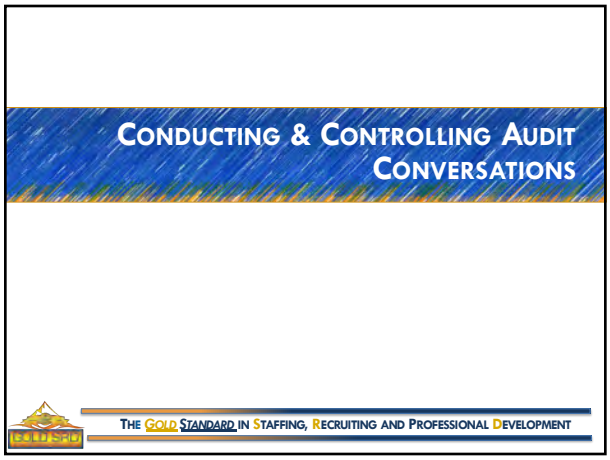

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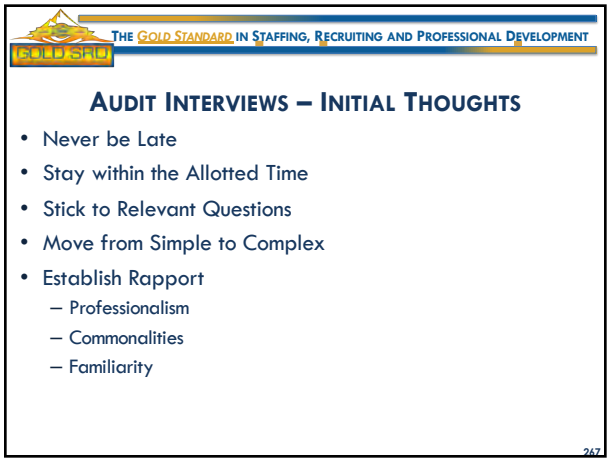

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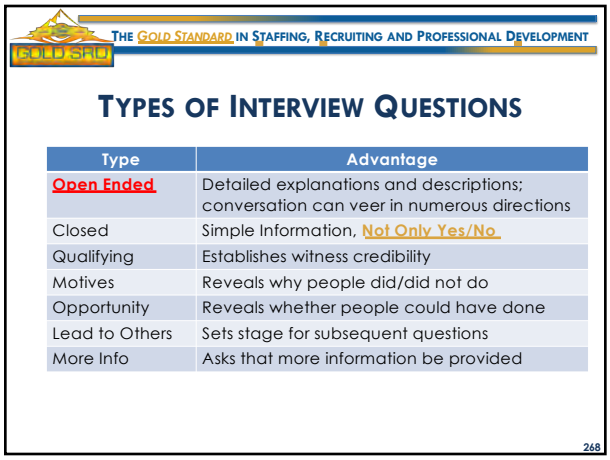

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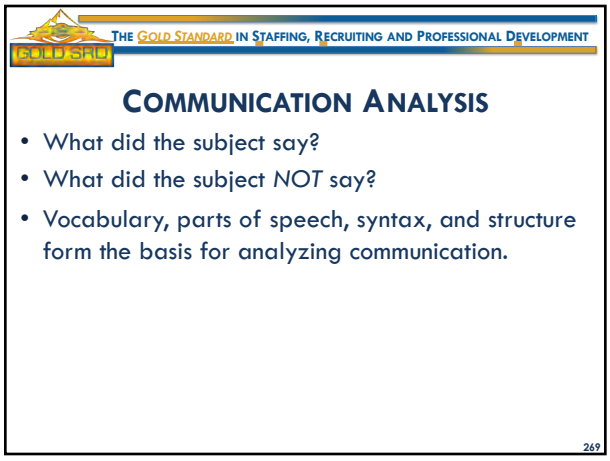

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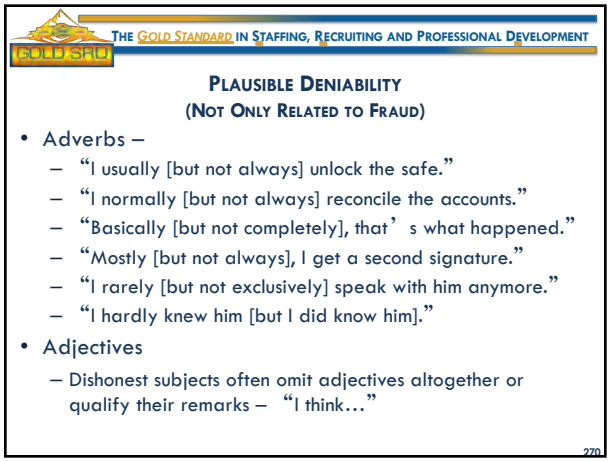

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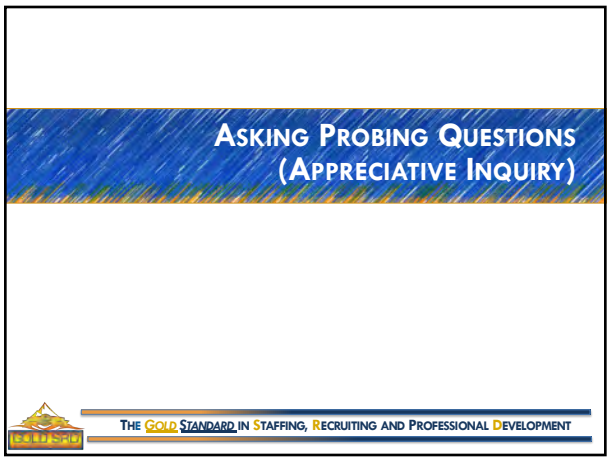

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SHIFTING FROM "WHAT'S WRONG?" TO "WHAT'S RIGHT?"

- Avoid the "all or nothing" thinking – deciding a situation only has two sides
- Avoid over-generalizing a situation – focus on details

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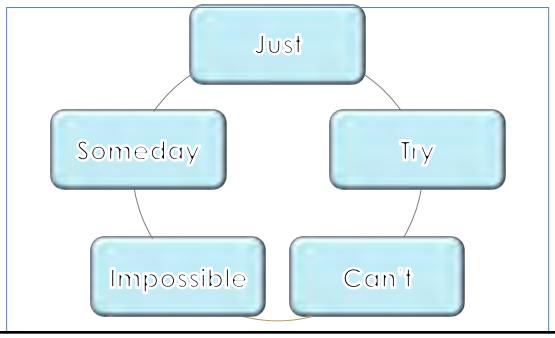
LIMIT OR REMOVE NEGATIVE PHRASING



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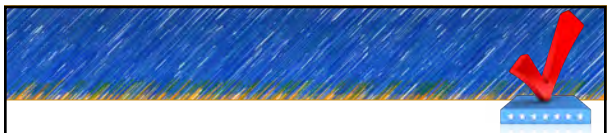

What are the words "Just, Someday, Impossible, Can't, and Try" an example of?

a) Words to use when speaking to the client in person, but not in email.
b) Negative phrasing, which should be limited or avoided.
c) Negative phrasing, which should only be used by upper-level management.
d) Words that soften up a negative phrase.

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HOW DO YOU HANDLE THE FOLLOWING SCENARIOS?

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SCENARIOS

- You have asked a risk-based question and the client gives you a perturbed look and follows with, "Why would you ask about that?" **What do you do?**
- During the walkthrough, the client states something that you are 95% sure is not correct. **What do you do?**
- During the exit conference, the client is very unaccepting of the findings and pushes back on EVERYTHING. **What do you do?**

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TIME & AGENDA

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MANAGING YOURSELF - INTERVIEWING

Time

- Be Early!
- Number of Questions and Information Requests
- Availability of Participants
- Interview Venue
- Use of Pre-reads &/or Questionnaires
- Embed Pre-reads/documents in Meeting invite

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MANAGING YOURSELF - INTERVIEWING

Agenda

- Organizes multiple topic areas
- Introduces multiple interviewers/participants
- Highlights progress of interview
- Helps keep all parties on track

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MAINTAINING CONTROL OF THE INTERVIEW

- Efficiency and Effectiveness is Key!
- Control the Interview (if possible)
- Fix the Environment – make as comfortable as possible
- Control Disruptions
- Control Yourself – Keep the interview focused on the objectives
- Keep the interviewee focused and moving forward
- Ask Questions for Clarification (Active Listening)

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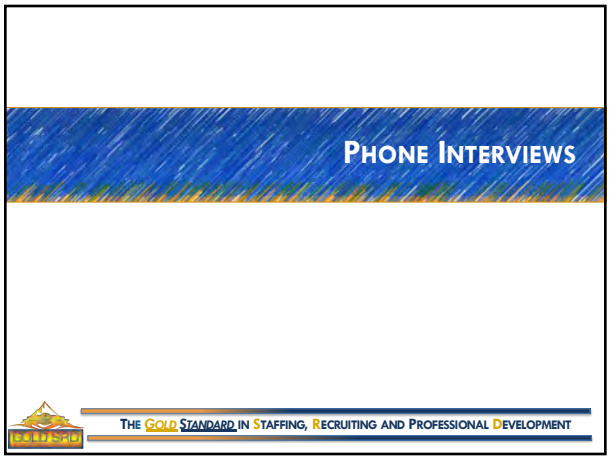

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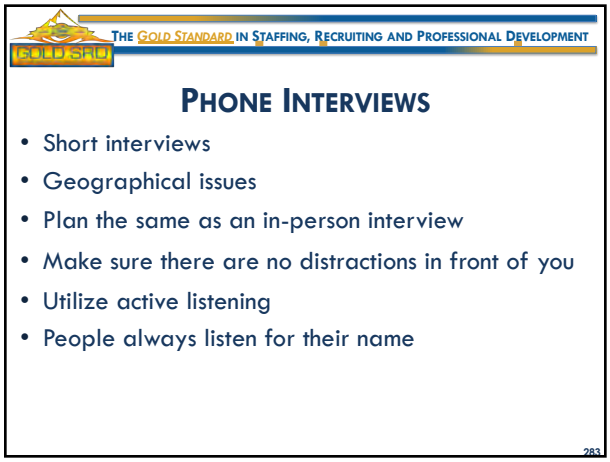

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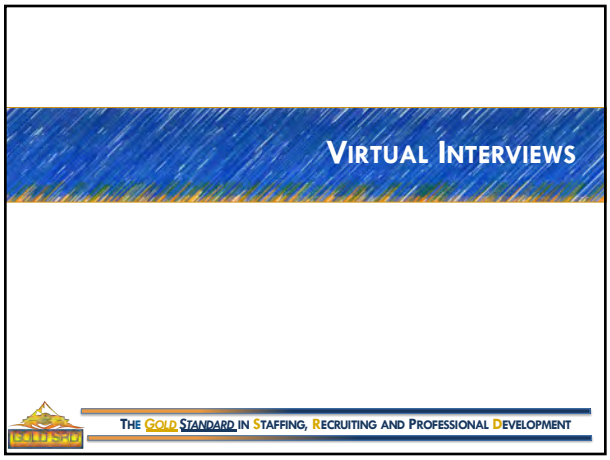

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VIRTUAL INTERVIEWS

- Treat same/similarly to Live
- Make use of video mandatory (if possible)
  - Be on Camera (look at Camera)
- Shorten conversations (lesser attention span)
- Still can read body language (to an extent)

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INTERVIEW FOLLOW-UP

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INTERVIEW FOLLOW-UP

- Send interview summary to interviewee for confirmation
  - Settle dissent now rather than later
- Follow up with email for any open items/action items

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IT AUDITING

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GENERAL COMPUTER CONTROLS

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INFORMATION SECURITY

Designing, implementing, and maintaining information security, including both physical and logical security over all access paths to programs and data. Accessing and prioritizing relevant security risks. Defining data owners, classifying data as to necessary security, and selecting and implementing security tools and techniques.

Control Objectives	Covers
Critical Areas • Tools and techniques restrict access to programs, data, and other information resources • Restricts access to programs and information • Physical access restrictions are implemented and administered to restrict access to information • All information resources subject to appropriate physical and logical security **Value Add Areas** • Virus Protection • Software is used in accordance with licensing agreements and management's authorization • Information is protected against environmental hazards and related damage	•Security policies •Security standards •Data ownership •Information security architecture •Security administration •Logical access •Security logging & monitoring •Physical access •Environmental

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INFORMATION SECURITY – COVERAGE AREAS

- Defining Data Owners – Identifying owners is key; is it the business or IT?
- Data Classification – Confidential, Private, Highly Sensitive Customer Corporate and Customer Data, Sensitive Internal Data, Public

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POLLING QUESTION

Who owns the data in a system?

a) Business, because they have to opine upon the financial data

b) Business, because IT doesn't own anything

c) IT, because they maintain the system

d) IT, because they are the system custodian

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INFO SYSTEMS OPERATIONS

Supervising and maintaining computer systems operations. Providing scheduled, monitored, and secure computer operations. Satisfying end-user requirements for computer processing support and problem resolution.

Control Objectives	Covers
Critical Areas • Production to process batch and on-line transactions and prepare related reports are executed timely and completely • Only valid production programs are executed **Value Add Areas** • Data is retained in accordance with laws, regulations, and company policy • Computer processing environment service levels meet or exceed management's expectations • Users receive appropriate systems training in the use of application systems • Users receive appropriate support to ensure that application systems function as intended	• Job scheduling • Processing control • Output control • Problem logging, tracking & reporting • Problem escalation & resolution • Capacity planning • Performance monitoring • Facilities management • Help desk procedures • Backup & Recovery • Business Continuity/Disaster Recovery

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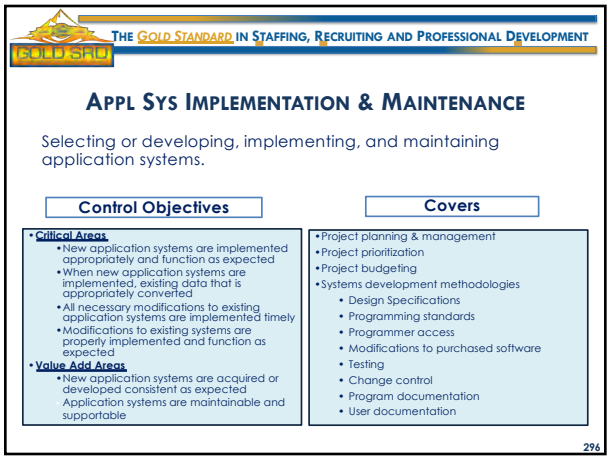
THE GOLD STANDARD IN STAFFING, RECRUITING AND PROFESSIONAL DEVELOPMENT
APPL SYS IMPLEMENTATION & MAINTENANCE
Selecting or developing, implementing, and maintaining application systems.
Control Objectives
• Critical Areas
• New application systems are implemented appropriately and function as expected
• When new application systems are implemented, existing data that is appropriately converted
• All necessary modifications to existing application systems are implemented timely
• Modifications to existing systems are properly implemented and function as expected
• Value Add Areas
• New application systems are acquired or developed consistent as expected
• Application systems are maintainable and supportable
Covers
• Project planning & management
• Project prioritization
• Project budgeting
• Systems development methodologies
• Design Specifications
• Programming standards
• Programmer access
• Modifications to purchased software
• Testing
• Change control
• Program documentation
• User documentation
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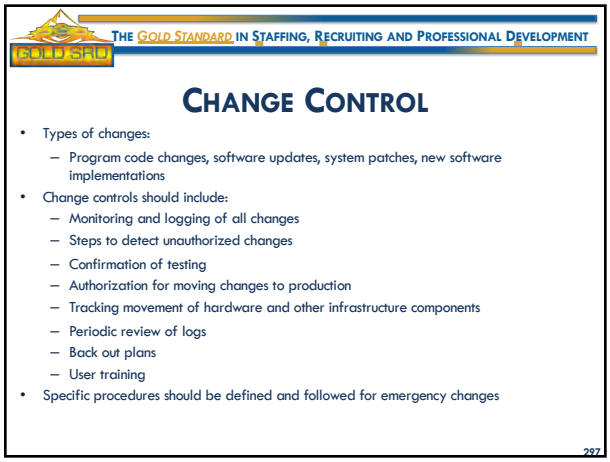
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CHANGE CONTROL
• Types of changes:
– Program code changes, software updates, system patches, new software implementations
• Change controls should include:
– Monitoring and logging of all changes
– Steps to detect unauthorized changes
– Confirmation of testing
– Authorization for moving changes to production
– Tracking movement of hardware and other infrastructure components
– Periodic review of logs
– Back out plans
– User training
• Specific procedures should be defined and followed for emergency changes
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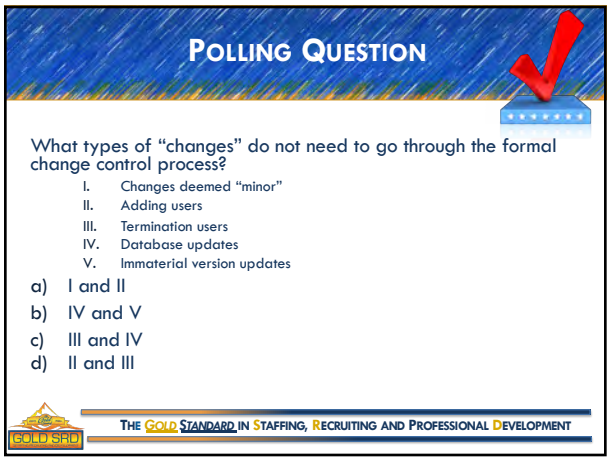
POLLING QUESTION
What types of "changes" do not need to go through the formal change control process?
I. Changes deemed "minor"
II. Adding users
III. Termination users
IV. Database updates
V. Immaterial version updates
a) I and II
b) IV and V
c) III and IV
d) II and III
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DATABASE IMPLEMENTATION & SUPPORT

Managing the data architecture and maintenance in terms of defining and maintaining the structure of master file data, transaction data, and organization data. Maintaining the database management system (or its equivalent).

Control Objectives	Topics Covered
Critical Areas	• Data architecture
• The data structure is appropriately implemented and functions consistent with management's intentions	• Database implementation
• All necessary modifications to the data structure are implemented timely and with proper approval (SDLC)	• Database administration & monitoring
• Modifications to the data structure are appropriately implemented and the modified data structure functions consistent with management's intentions	• Database maintenance & modifications

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GOLD NUGGET

- Master Files
  - Customer
  - Employee
  - Vendor
- Why is protection of the master file important?

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POLLING QUESTION

What risk is significantly decreased if the master file is well protected?

a) Strategic

b) Fraud

c) Financial

d) Operational

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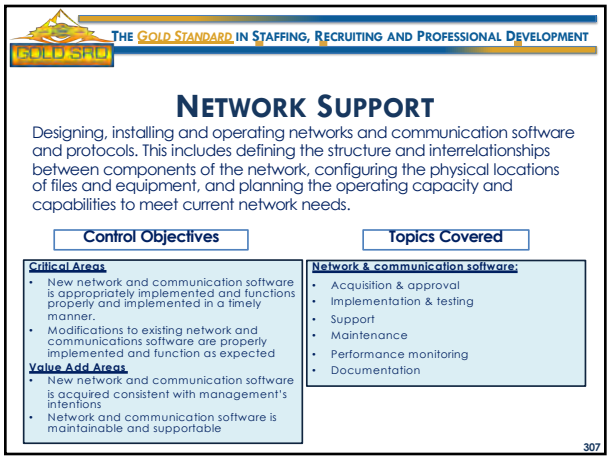

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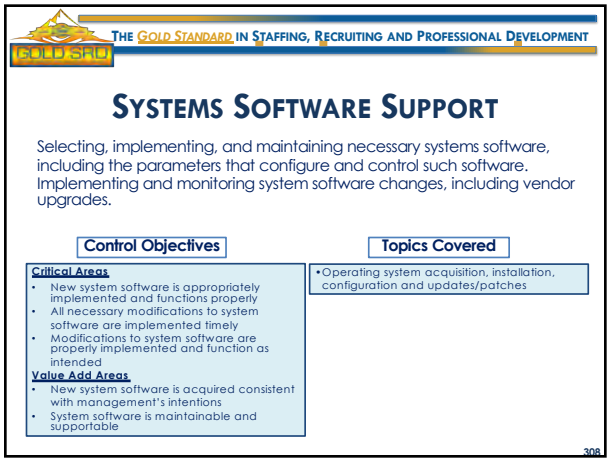

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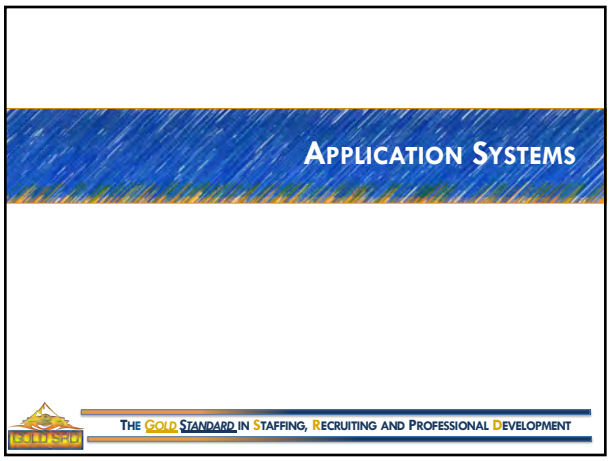

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SELF-STUDY THOUGHT PROVOKER

- Are Application Controls classified as business control or information technology control?

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POLLING QUESTION

Are Application Controls classified as business control or information technology control?

a) Business Control, because they are in the system but are still business rules
b) Business Control, because the business, in essence, owns everything
c) Information Technology Control, because IT manages the system
d) Information Technology Control, because the controls are in the system

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APPLICATION CONTROLS – LAYMAN'S TERMS

- Do not think of Application Controls as something "IT"
- Application controls, at their core, have nothing to do with IT
- Business Rules set up in a system
- Most likely would exist in some form regardless if a system is used

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DEFINING APPLICATION CONTROLS

- Application controls are those controls that pertain to the scope of individual business processes or application systems, including data edits, separation of business functions, balancing of processing totals, transaction logging, and error reporting.
- Objective of application controls is to ensure that:
  - Input data is accurate, complete, authorized, and correct.
  - Data is processed as intended in an acceptable time period.
  - Data stored is accurate and complete.
  - Outputs are accurate and complete.
  - A record is maintained to track the process of data from input to storage and to the eventual output

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APPLICATION SYSTEMS AUDITING

- All key business processes are supported by application systems.
  - Financial Reporting, Sales, Inventory Management, et al.
- Most companies have not optimized identification of application controls and flipped the switch on application versus manual controls
- Application systems help achieve:
  - Efficiency and effectiveness of operations
  - Reliability of financial reporting
  - Compliance with applicable laws and regulations
- What are application controls?

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TYPES OF APPLICATION CONTROLS

- **Input Controls** – These controls are used mainly to check the integrity of data entered into a business application, whether the data is entered directly by staff, remotely by a business partner, or through a Web-enabled application or interface. Data input is checked to ensure that is remains within specified parameters.
- **Processing Controls** – These controls provide an automated means to ensure processing is complete, accurate, and authorized.
- **Output Controls** – These controls address what is done with the data and should compare output results with the intended result by checking the output against the input.
- **Integrity Controls** – These controls monitor data being processed and in storage to ensure it remains consistent and correct.
- **Management Trail** – Processing history controls, often referred to as an audit trail, enables management to identify the transactions and events they record by tracking transactions from their source to their output and by tracing backward. These controls also monitor the effectiveness of other controls and identify errors as close as possible to their sources.

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POLLING QUESTION

Which control types are essentially the same but happen at different point in the transaction processing process?

a) Input and Output
b) Output and Processing
c) Processing and Input
d) Input, Processing and Output

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ELECTRONIC AUDIT EVIDENCE

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EAE RELIANCE

- Establishing a basis for relying on electronic data includes:
  - Determining the source of the electronic data (which application produces the data)
  - Determining, through identification and evaluation of internal controls or through substantive procedures, whether the electronic data is complete and accurate

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TESTING REPORT LOGIC

- Evaluate to what extent the logic of the report or query guarantees that the report is **complete** and **accurate**
- Test procedures are determined based on risk assessment:
  - What is the origin of the software?
  - Is the report used frequently by the client?
  - Can the client influence the content of the report?
  - Can the client edit the output of the report?
  - Are we sure the data in the underlying database is complete and accurate?
- Test procedures are based on controls testing or substantive testing

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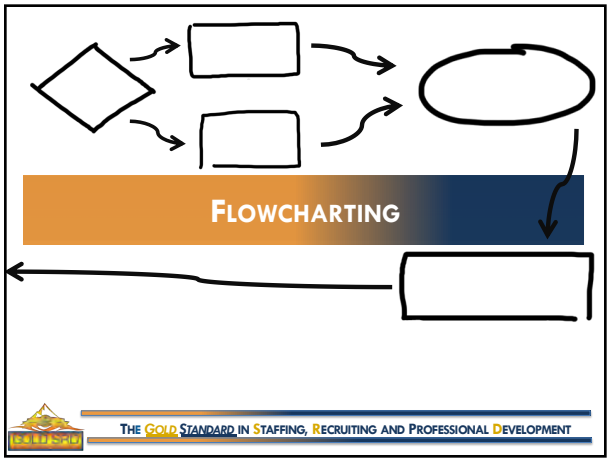

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FLOWCHART

Purpose: Sometimes referred to as a flowchart or a process map, is a visual sequence of steps, control activities, decisions, and/or tasks that transform inputs to outputs

Provides a number of benefits including:

- Identification and visualization of risks and controls within a process
- Opportunity to gain formal agreement with business unit partners on process flow
- Linkage to preceding and subsequent workflow processes, and other auditable entities to allow for more in-depth view of end-to-end processes

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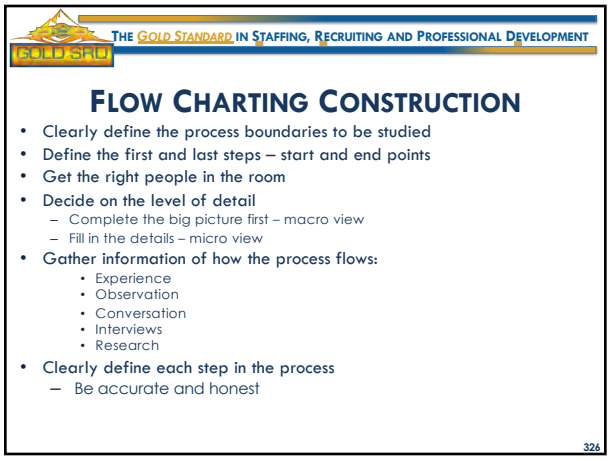

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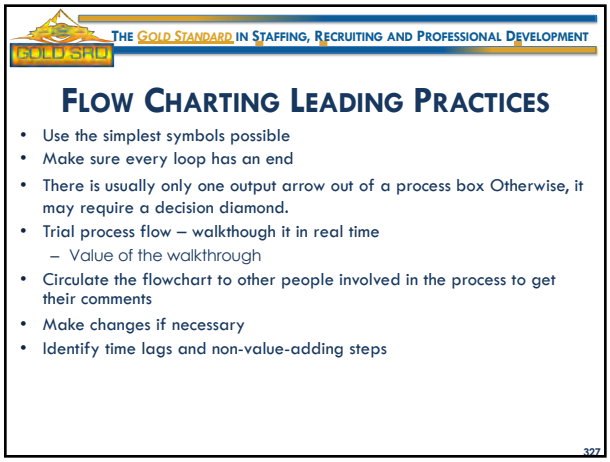

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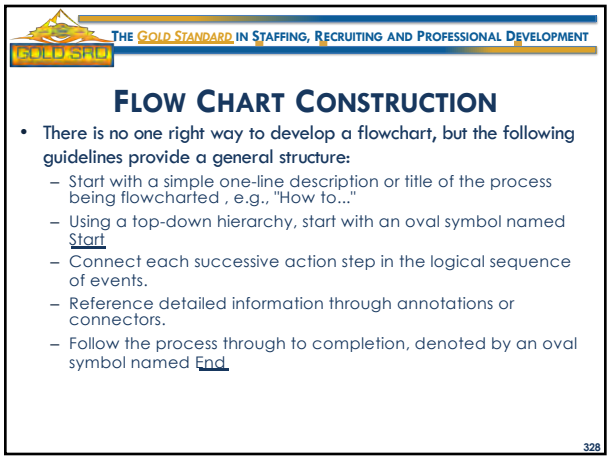

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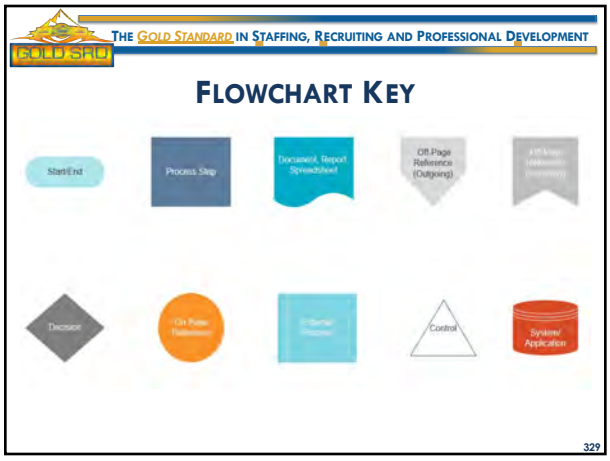

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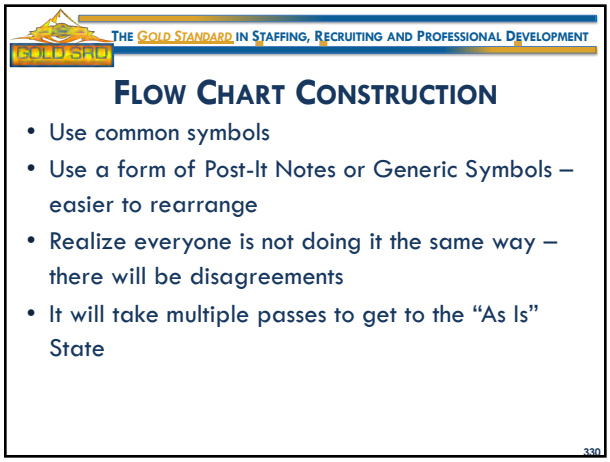

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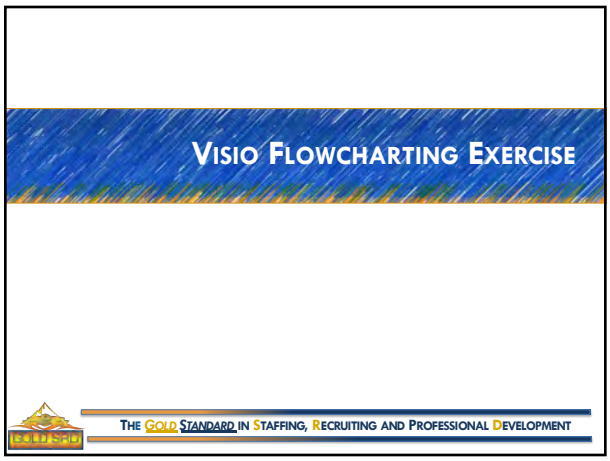

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VISIO EXERCISE #1

- Please create a flowchart on how Joe gets ready for and gets to work every day
- Considerations/Facts:
  - Does he use an alarm?
  - Does he need to wear business, business casual or casual dress?
  - Does he eat breakfast at home or pick something up?
  - Joes drives a car
- **Q:** What other questions need to be answered in order to build your flowchart?

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FLOWCHART EXERCISE ANSWER

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WHAT IS STORYBOARD FLOWCHARTING?

- Tell the story
- Clean and simple flowcharting method.
- Allows for clients and auditors to clearly understand process under review.
- Simple technique that requires a good graphics package and a little imagination.

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THE BASICS OF STORYBOARD

- Meet with client and document process.
- Use your imagination to choose/draw picture.
- Under picture write narrative for each step represented.
- Be creative - good control narrative in green; poor controls in red.
- Completed storyboard must be reviewed with client.
- Make any changes necessary.
- Final copy should be in color for most effective presentation.
- Different process may require different approach.

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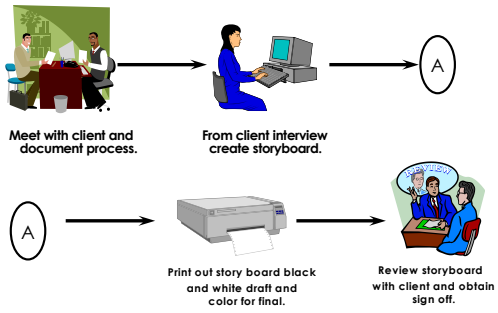
HOW TO STORYBOARD



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MAPPING RISK TO PROCESSES

- Identify risks
- Link risks to the processes
- Evaluate risks in terms of likelihood and impact (exposure)
- Determine risk responses
  - Avoidance, reduction, sharing, acceptance

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COMMUNICATION: PEOPLE-CENTRIC SKILLS FOR AUDITORS

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DETERMINING THE OPTIMAL MODE OF COMMUNICATION

- IN PERSON
- PHONE/TEXT
- EMAIL

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CONSIDERATIONS

- Geographic location/distance
- One-way vs two-way communication
- Other person's preference
- Urgency of message
- Difficulty of understanding message
- Length of message
- Will message drive an emotion?

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POLLING QUESTION

If a message will drive a significant emotion, what is the optimal mode of communication?

a) In Person
b) Text Message
c) Email
d) Does Not Matter

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EMAIL COMMUNICATION

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PRACTICAL EMAIL LEADING PRACTICES

- Two Leading Causes of Email Miscommunication:
  1. Assuming the recipient has all the background
  2. Tone Ambiguity
- Understand your audience (is this the appropriate mode of communication?)
- Consider what you are communicating
- White space is good
- It's not just what you say, but how you say it
- Never send an email angry
- Don't forget about verbal communication

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TYPICAL HORRIBLE PRACTICES

- Urgent or Badly Misleading Subject Lines (or Blank or Non-Descript)
  - Meeting Date Changed
  - Follow-Up to Call Last Friday
- Reply All (use it wisely)
- Overuse of punctuation (exclamation points)
- One Word Responses (previously discussed)
- CC & BCC – what is appropriate use?
- Read & Delivery Receipts

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CAUTION – BE CAREFUL WHAT YOU SEND

- Email can hang around forever
- Your emails can be subpoenaed
- You may be called to explain or defend something you emailed years later
- Regardless of personal or business

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CAUTION – BE CAREFUL WHAT YOU SEND

Try to avoid:

- Making accusations of fraud or error via email
- Making personal attacks or derogatory comments about others
- Sending confidential, classified or personal identifiable information (like SS#'s, etc.) via email
- Blunt statements (I will respond to you at my earliest convenience)
- Emotional responses

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BEST PRACTICES - PRACTICAL TIPS TO IMPROVING YOUR EMAIL SKILLS

- Clarity is key
- Understand your audience
- White space is good
- It's not just what you say, but how you say it
- Never send an email angry
- Don't forget about verbal communication
- Consider what you are communicating
- Ambiguity in tone

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TYPICAL BAD PRACTICES

- Blank or non-descriptive subject lines
- Reply to all
- One-liners
- Address exposure
- BCC

I Think morale might improve if you discontined the "loser of the week e-mail

[redacted]

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MISC. EMAIL

- Keep relevant emails
  - Create and utilize folders (easy to find)
- Who do you CC and BCC?
  - CC relevant parties but watch over CCing; do they really need to be on the email string?
  - Use BCC sparingly
- Utilizing read receipts
  - Only use if you feel this is very necessary. Remember – recipient receives notice that read receipts are being utilized; not readily accepted in the workplace
- Personal emails
  - Nothing via email is personal – watch usage

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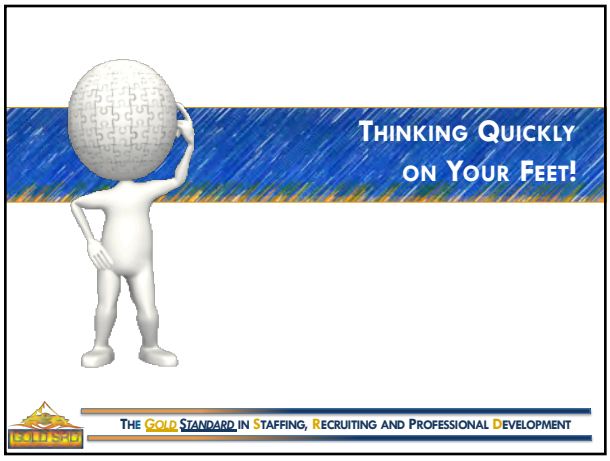

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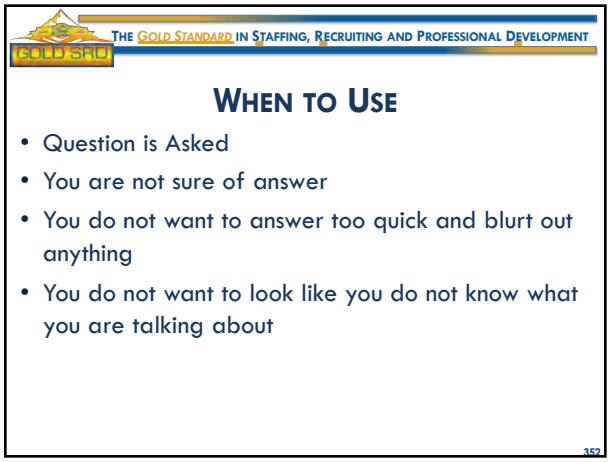

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STARS METHOD TO QUICK THINKING

- Stop and Breathe
- Take Time to Listen
- Ask to Repeat the Question
- Repeat the Question Yourself
- Silence can be Deafening

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STOP & BREATHE

- In order for your voice to remain calm and for your brain to "think," you have to be as relaxed as possible
- Take deep breaths (without being too obvious)
- Think positive
- Clench invisible muscles (thighs, biceps, feet) for a few seconds & release

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TAKE TIME TO LISTEN

- Listening - Process of receiving, constructing meaning from, and responding to spoken and/or nonverbal messages; to hear something with thoughtful attention
- Effective communication is two-way
  - Dependent on speaking **and** listening
  - Email **SHOULD BE** 1-way communication

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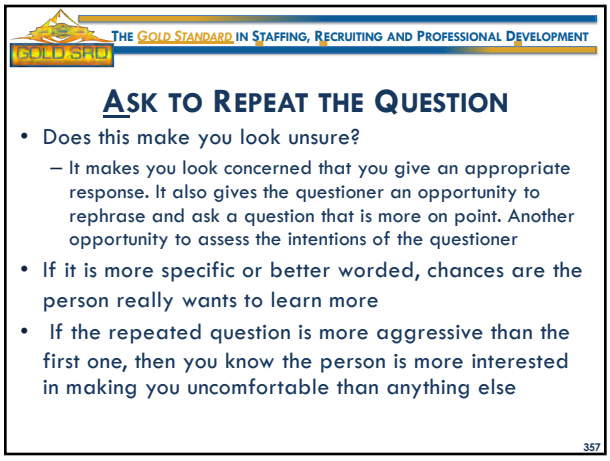

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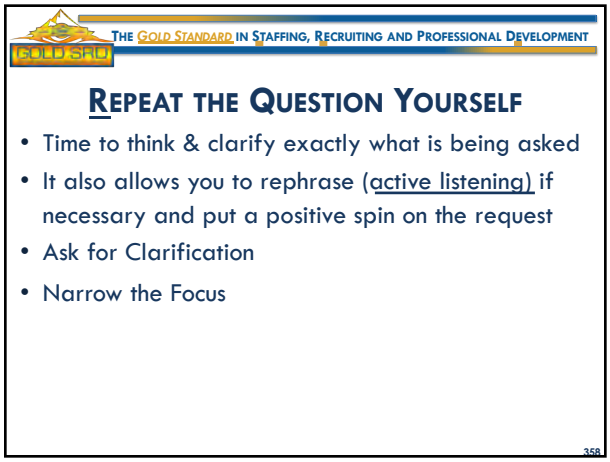

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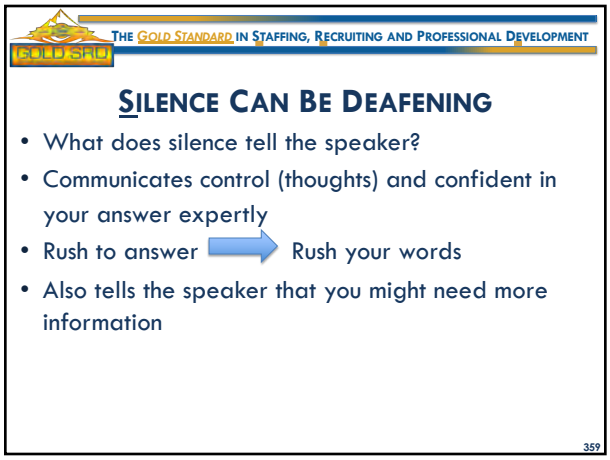

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POLLING QUESTION

What does the R in STARS stand for?

a) Regurgitate the Message
b) Reiterate your Impatience
c) Repeat the Question Yourself
d) I Have No Idea

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CONFLICT/NEGOTIATION

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GROUP DISCUSSION: DIFFICULT SITUATIONS

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DIFFICULT SITUATIONS

- Open Discussion
- Communicating audit issues to someone at a much higher level
- Verbally communicating a sensitive issue/finding or unsatisfactory rating to the Auditee
  - How to handle it when Auditee doesn't agree?
- Auditee openly questions report rating and understanding of ratings
- Do not see eye to eye with Manager and do not communicate well with him/her

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CONFRONTATION

- People inherently do not like confrontation
- Transparency and honesty can breed confrontation but that can be healthy confrontation
  - Lack of transparency and honesty breeds negative confrontation
- Caused in many cases by miscommunication
- Optimize your confrontations…….

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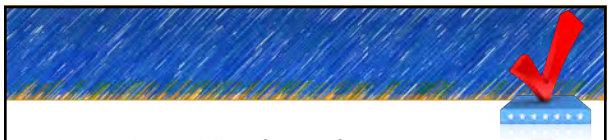

When in the middle of a confrontation, something that is counterproductive to resolving the argument is:

a. Arguing with the person
b. Agreeing with the person
c. Nodding your head in acknowledgement
d. Avoiding eye contact

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OPTIMIZE YOUR CONFLICT RESOLUTION

1. Personally confront the issue
2. Make your initial statement and stop talking
3. Avoid arguing during the confrontation
4. Know the resolution you want prior to the confrontation
5. Focus on the real issue of the confrontation
6. Acknowledge feelings

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FACT CONFLICTS

- Conflicts over facts are usually the easiest to resolve since facts are subject to independent verification
- In these cases, the questions will concentrate on gathering the information needed to confirm or refute the facts
- Once everyone is satisfied that the facts are correct, the conflict will be resolved
- Walk through the steps to lead to the conclusion – gain agreement on each step

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FEELINGS & PERCEPTIONS

- Well-intentioned recommendations may sometimes be perceived as criticisms or even accusations
- The natural human response to a perceived threat is "fight or flight"
- Defensive and making excuses
  - Make the situation not become personal
  - Look for cost/benefit
  - Respect the other person – who knows more?
  - Make sure they understand – you are doing your job

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PERSONALITIES

- We are not psychologists
- Researchers have found that most differences in working styles result from differences in two basic characteristics:
  1. Ask vs. tell
  2. Task-oriented vs. People-oriented behavior
- Manage the situation and person

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GOLD NUGGETS

- Understand and Manage Expectations – Positive Attitude is infectious!
- Keep an open mind to learning and be open to new things!
- Continuously communicate – ask questions and be open to feedback

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