

Welcome To
The Wonderful, Interesting World
Of
INTERNAL AUDITING

WESLEY LEWIS

Certified Public Accountant

Certified Internal Auditor

Certified Financial Services Auditor

Certified Fraud Examiner

Certified Internal Controls Auditor

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Summary of Education & Experience

- Bachelor's Degree in Accounting from Illinois State University – 1986
- GAAP
- SOX
- Risk Assessment
- Fraud and Forensic Auditing
- Problem Solving
- Cost Savings
- Leadership/Employee Development
- Internal Controls Testing
- Financial Statement Preparation

Outline

- Definition of Internal Auditing (IA)
- Who Governs IA?
- Creation of an IA Function
- The IA Process
- Historical Developments Involving IA
- Ties With Other Professional Organizations
- Engagements and Findings In My Career
- Future of IA
- Questions and Discussion

Definition of IA

- According to the Institute of Internal Auditors, (www.theiia.org), 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.

Definition of IA (Cont'd)

Compare and Contrast With Accounting:

- Internal auditors can be accountants and vice versa.
- Each has the responsibility for understanding internal controls.
- Each works for management and adds value.
- Both can analyze financial statements.
- Internal auditors are not allowed to record transactions, journal entries, or prepare and distribute financial statements.
- Accountants report to middle to upper management, such as accounting managers, controllers, CFO's, etc.
- Choice/mandatory certification for accountants is CPA, internal auditors is CIA, both exams are now computerized and have four parts.

Definition of IA (Cont'd)

- Accountants are required to have accounting or finance degrees. Auditors do not have to have accounting degrees.
- Internal auditors must maintain independence in both fact and appearance when auditing functions and business processes.
- The internal audit function (Chief Audit Executive) reports functionally to the Audit Committee of the Board of Directors and administratively to the CFO, at a minimum, and should NEVER report directly to a controller or CFO.
- Internal auditors have a much broader view of the company than accountants and even external auditors.
- Internal auditors audit not just financial statements (like external auditors do), they evaluate business processes and dig into the details of what drives the numbers (in the weeds), then make recommendations for improvements.

Who Governs IA?

Institute of Internal Auditors (www.theiia.org)

- Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association with global headquarters in Altamonte Springs, Fla., USA. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator. Members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.
- Most members are CIA's.
- The IIA has over 170,000 members in 165 countries.
- History of IA - The Greeks, Romans, and Egyptians were conducting audits before the birth of Christ.

How is an IA Function Created?

An IA function is created by Resolution by the Board of Directors and/or a vote of the shareholders. The resolution should also create a committee of the board to oversee the IA and Accounting functions of the Company (Audit Committee).

The Audit Committee should contain members that have finance and accounting expertise.

Per the Sarbanes/Oxley Act of 2002, an IA function is mandatory for all publicly traded companies in the United States. It can be in-house or outsourced. The preference is in-house.

The IA Process

- Risk Assessment (including ERM)
- Creation of Annual Audit Plan
- Audit Planning
- Pre-Audit Work
- Opening Conference
- Fieldwork
- Exit Meeting
- Writing of Report and Distribution
- Closing Conference
- Filing of audit workpapers

Historical Developments Involving IA

- Foreign Corrupt Practices Act of 1977
- Treadway Commission Report 1987 and COSO framework
- Committee of Sponsoring Organizations (COSO) and subsequent new framework
- Outsourcing of IA, External Auditing (Big 4-5)
- Fraud Cases of 1980's (ZZZ Best Carpet Cleaning, Failed Savings & Loan Associations, The Keating 5)
- Insider Trading Scandals of 1980's (Ivan Boesky and Michael Milken – Junk Bond King)
- Corporate Scandals of late 1990's, early 2000's (Enron, MCI WorldCom, Xerox, etc.)
- Sarbanes/Oxley Act of 2002 – IA's New Job Security

Ties With Other Professional Organizations

- IMA
- ACFE
- AICPA
- FASB
- GASB
- IASB
- State Boards of Accountancy
- State CPA Societies
- Note: The IIA offers the CIA, CCSA, and CFSA certifications

Engagements and Findings in My Career

- Real Estate Lease Audit - \$7m lent to store developers
- Operational Audit of a Mexican Operation - \$5m unfavorable overhead variance
- Fraud Investigation - \$34k in computer hardware and software not inventoried, among other things
- Regular Operational Field Audit – Personal gas purchased with company credit card consistently
- Non-Profit – Purchase of school supplies on company credit card
- Accounting at a Grain Company – Booked an accrual entry for a record production month
- Operational Audit – Money being manually deposited versus being swept into the lockbox account

Future of IA

- Must add value by being connected and in touch with the business
- Must be proactive
- Must not allow companies to outsource the function (oxymoron)
- Must provide appropriate and cutting-edge continuing professional education to auditors (mainly the IIA) so that auditors can continue to meet challenges
- Must think “outside the box”

Questions and Discussion