

Florida Audit Forum

August 7, 2015

# CREATING POSITIVE CHANGE IN THE WORLD OF GOVERNMENT AUDITING





# TRAINING OBJECTIVES

1. Explore the **challenges** that the government environment presents for creating effective internal auditing results.
2. Discover **new ideas** and approaches for meeting our internal audit responsibilities and improving the ways we **perform our jobs** and **sell change** to management and others.
3. Discuss **best practices** for **communicating** with our **audit clients** as well as **audit staff and management**.
4. Look for **new ways** to add value for our audit clients and our organizations.

# TOPICS

## 1. Politics, Culture and Internal Auditing in the World of Government

A discussion of the people and process challenges we encounter as government internal auditors.

## 2. Spreading the Good Word

Educating audit clients about the importance of internal controls (without speaking 'auditoresese')

## 3. Marketing the Internal Audit Function

Creating a friendlier audit/client work environment.

# WHAT YOU WILL NEED TO GET THE GREATEST BENEFITS FROM THIS SEMINAR

- ⦿ Your auditing and business knowledge and experiences
- ⦿ Knowledge of your organization's operations and business concerns
- ⦿ A willingness to participate and share your thoughts and insights

**HAVE YOU EVER BEEN TO A SEMINAR LIKE  
THE ONE IN THIS PICTURE?**



## CREATING POSITIVE CHANGE IN THE WORLD OF GOVERNMENT AUDITING

- Communication - **Presentations** - one way (hear about it, read about it, think about it)
- Communication - **Discussions** - two way (talk about it, write about it)
- Communication - **Practice** - many way (team work, practice, and feedback)

We remember **10%** of what we **hear**, **15%** of what we **see**, **80%** of what we **do**, **90%** of what we **teach** to others.

# WHAT ARE YOUR INTERNAL AUDITING CONCERNS? HOW DO I.....?

1. determine the areas of highest risk for the department, function and/or organization?
2. improve support from upper management for performing audits in specific areas?
3. get management buy-in on risk analysis, risk identification and risk significance?
4. better identify fraud risks?
5. ensure that management takes proper corrective action to mitigate risks?
6. establish an atmosphere of teamwork with the audit client and audit staff?
7. help management find solutions to problems in areas where they are the experts?
8. sell management on the need for changes/improvements?

March 10, 1876





# SEMINAR INTRODUCTION

"Louie, I think this is the beginning of a beautiful friendship."

# SEMINAR INTRODUCTION

"Louie, I think this is the beginning of a beautiful friendship."

'Casablanca' (1942)



# SECTION 1

**Politics, Culture and Internal  
Auditing in the World of  
Government**

### POLITICS, CULTURE AND INTERNAL AUDITING IN THE WORLD OF GOVERNMENT

A discussion of the people and process challenges we encounter as government internal auditors.

- The roles and expectations of government auditors
- The challenges we face in meeting these expectations and changes we can produce

# ACTIVITY

## The roles and expectations of government auditors

(at your table, discuss your role(s) and expectations as a government auditor).

## YELLOW BOOK (ROLES)

- ❑ Government auditing is essential in providing accountability:
  - to legislators,
  - oversight bodies,
  - those charged with governance, and
  - the public.
- ❑ Government auditing provides an independent, objective, nonpartisan assessment of the stewardship, performance, or cost of government policies, programs, or operations.
- ❑ Government auditing provides for the proper handling of sensitive or classified information or resources;
- ❑ Government auditing exercises discretion in the use of information acquired in the course of auditors' duties;
- ❑ Government auditing provides for accountability to the public for the proper use and prudent management of government resources
- ❑ Government auditors provide high expectations for the auditing profession

## GREEN BOOK (ROLES)

□ Inspectors general at all levels of government are entrusted with fostering and promoting accountability and integrity in government any conduct that might bring discredit to:

- Auditors' work;
- Professional behavior;
- Public trust;
- Public expectations
- Serving the public interest

## RED BOOK (ROLES)

□ The Institute of *Internal Auditors* (IIA) defines *Internal Auditing* as: “An independent, objective **assurance** and **consulting activity** designed to **add value** and improve an organization's operation. 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.”

Internal Auditors' roles include:

- monitoring, assessing, and analyzing organizational risk and controls;
- reviewing and confirming information and compliance with policies, procedures, and laws.
- Working in partnership with management, internal auditors provide assurance that risks are mitigated and that the organization's corporate governance is strong and effective.
- When there is room for improvement, internal auditors make recommendations for enhancing processes, policies, and procedures.”

## THE ROLES OF GOVERNMENT AUDITORS

- ◉ Compliance with laws, rules, regulations, policies and procedures
- ◉ Assessing blame when things go wrong
- ◉ Assurance that objectives are being met
- ◉ Recommending control improvements to help ensure that problems don't happen or reoccur
- ◉ Providing accountability to ensure that the things that need to change get changed

## THE EXPECTATIONS OF GOVERNMENT AUDITORS

- ◉ Improving Economy, Efficiency and Effectiveness
- ◉ Getting more for our money
- ◉ Doing more with less
- ◉ Getting things done faster without increasing costs or reducing quality
- ◉ Increasing our profits without decreasing product and service quality
- ◉ Minimizing our risks/improving internal controls

# ACTIVITY: CHALLENGES & CHANGES

At your table, discuss and write down the:

- Challenges we face in meeting these roles/expectations

and

- Changes we can produce

## SECTION 1

# THE CHALLENGES WE FACE IN MEETING THESE EXPECTATIONS AND CHANGES WE CAN PRODUCE

- ⦿ Politics that result in things being done that should not be done
- ⦿ Focus on other than financial objectives because it's not always about money
- ⦿ A lack of accounting competencies by people entrusted to provide controls over financial matters
- ⦿ A lack of accountability when something happens that should not have happened

# SPEAK NO EVIL, SEE NO EVIL, HEAR NO EVIL



## SECTION 1

### THE CHALLENGES WE FACE IN MEETING THESE EXPECTATIONS AND CHANGES WE CAN PRODUCE

# WHAT'S MORE IMPORTANT THAN MONEY?

- ◉ **IT** - Number of Help Desk issues resolved, resolved timely.
- ◉ **Procurement** - Number of PO's processed, processed timely.
- ◉ **HR** - Number of background screenings, number of new hires processed
- ◉ **Customer Service** - Number of new customers, % of satisfied customers
- ◉ **Communications** - Number of press releases, number of programs produced
- ◉ **Attorney** - Number of legal issues, number of cases settled.

SECTION 1

THE CHALLENGES WE FACE IN MEETING THESE EXPECTATIONS AND CHANGES WE CAN  
PRODUCE

How robust is your  
organization's internal  
control environment?

# WHY INTERNAL CONTROLS WORK

- 1) Policies and Procedures
- 2) Laws, Rules, and Regulations
- 3) Auditors
- 4) Auditors
- 5) Auditors
- 6) Good People

# WHY INTERNAL CONTROLS BREAK DOWN

- 1) Trust
- 2) A lack of control **awareness** by those responsible for designing and enforcing internal controls
- 3) A lack of **accountability** and **consequences**
- 4) The **attitude** that as long as we have money in the budget, it's okay to spend it
- 5) The **belief** that taking financial advantage of a business entity is not as wrong as taking financial advantage of an individual.
- 6) **Situational incompetence**

## Section 2

**Selling the benefits of  
good business  
practices**

# ACTIVITY

At your table (or you can join another table), discuss and document how you sell the benefits of good business practices.

**SECTION 2**  
**POLITICS, CULTURE AND INTERNAL AUDITING IN THE WORLD OF GOVERNMENT**

**Spreading the Good Word - Educating audit clients about the importance of internal controls (without speaking 'auditores')**

- The value of controls to achieving success
- Selling the benefits of good business practices

# WEBSTER SAYS:

Audit (*n*)

"...a methodological examination and review..."

Auditee (*n*)

Oooops!....Not a word in Mirriam-Websters Dictionary

Client (*n*)

"...(1) a person who engages the professional advice or services of another..."

...(2) a person that is under the protection of another.... "

# THINGS AUDITORS AND CLIENTS WANT

Together,  
They Want

- Organization Improvement
- Policy Compliance
- Effectiveness
- Efficiency

Individually'  
We Want

- Recognition
- More Resources
- Job Security
- Less Noise

**SECTION 2**  
**SELLING THE BENEFITS OF GOOD BUSINESS PRACTICES**

- ① Helping management meet its objectives is the reason that internal controls exist.
- ① Controls are not obstacles to avoid. When people understand the purpose and benefits that internal controls provide, they are more likely to buy into the need to abide by them.

## SECTION 2

# NON-AUDITOR THINKING

One of the biggest challenges auditors deal with is the difference between **the way auditors see the world** and **the way the rest of the world sees the world**. Auditors are up against these kinds of thinking.

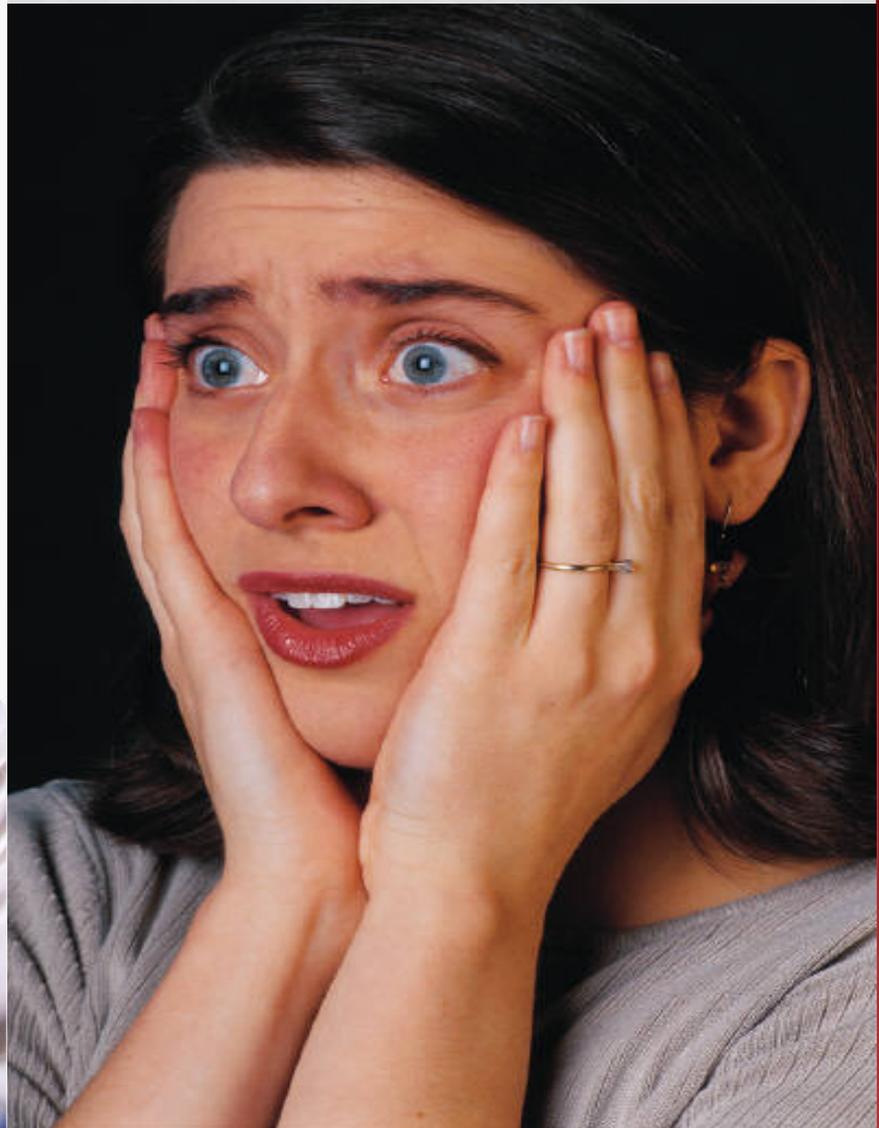
1. **Git-R-Done** - What auditors see as essential “internal controls” (things like review and approval, supporting documentation, reconciliations, monitoring of performance,), others see has obstacles to getting the work done. The result can be hollow compliance (approvals with cursory or no review, exception reports that aren’t acted upon, or support created after the fact).
2. **Use it or lose it** - Thinking that if there’s money in budget it’s not only okay to spend it, we need to spend it or lose it, regardless of whether the expense makes good business sense.
3. **We don’t need procedures** - We know what to do and how to do it, we don’t need written procedures to tell us what to do. If something goes wrong, we’ll figure out what to do when it happens.

If you’re not an auditor, these kinds of thinking do make sense.

You do audits all day, every day,  
year in, and year out..

**But...**

The client may have never been  
audited during their whole career



In general, clients are scared

You may not see it  
the same way



So, when you



And your client  
begin an audit

# BEHAVIORS WE ENCOUNTER



➤ Defensiveness

# BEHAVIORS WE ENCOUNTER

Suspicion



# BEHAVIORS WE ENCOUNTER



Argumentative

# BEHAVIORS WE ENCOUNTER



Avoidance

# BEHAVIORS WE ENCOUNTER



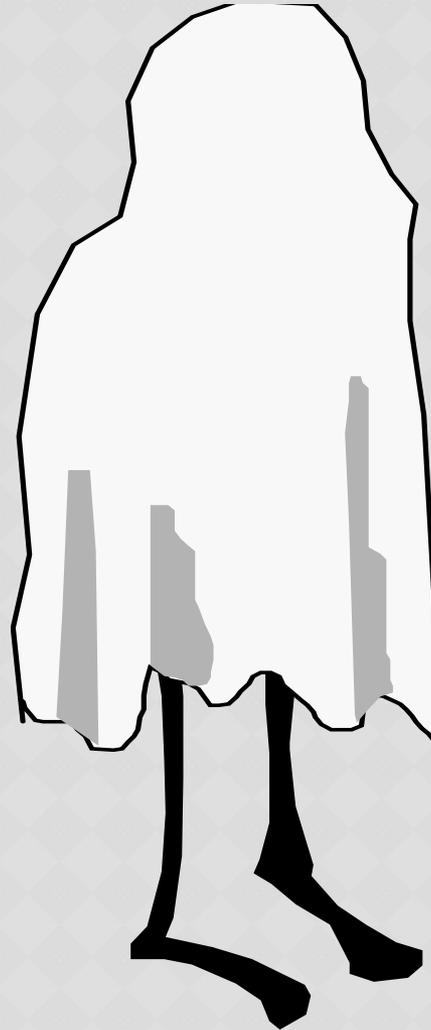
Personalizing

# BEHAVIORS WE ENCOUNTER



Blaming

# BEHAVIORS WE ENCOUNTER



Feigned Ignorance (Play Dumb)

# BEHAVIORS WE ENCOUNTER



Anger

# THINGS CLIENTS FEAR?

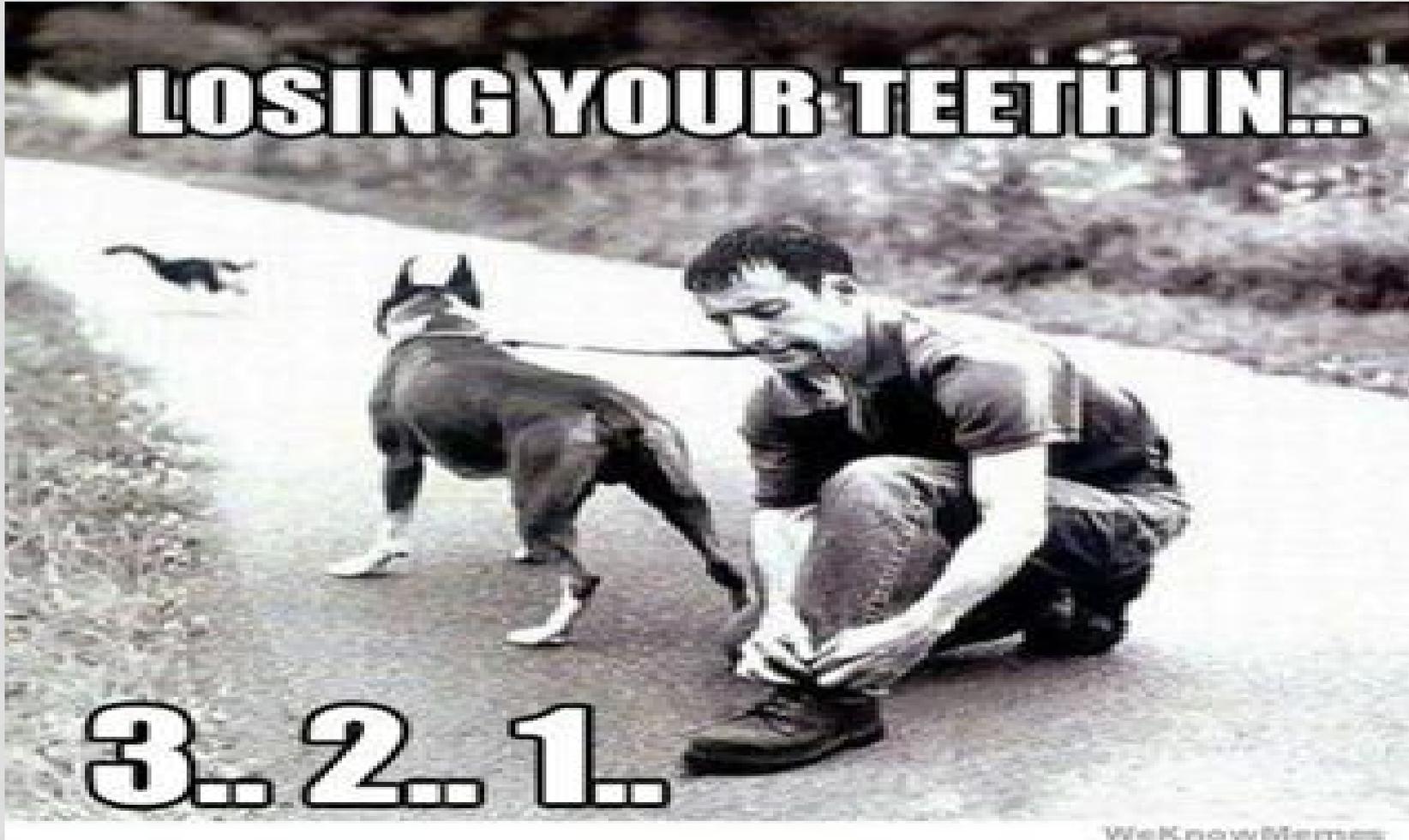
- Loss of Control
- Blame by Leadership
- Damaged Reputation
- Elected Official Criticism
- Media Portrayal

What Else?

**SECTION 2**

**SELLING THE BENEFITS OF GOOD BUSINESS PRACTICES**

# **IDENTIFYING RISKS**



## SECTION 2

### IDENTIFYING RISK

Let's discuss

IDENTIFYING RISK

## SECTION 2

# SELLING THE BENEFITS OF GOOD BUSINESS PRACTICES TEN UNIVERSAL BUSINESS RISKS

Some audit groups use this framework, along with management input, to identify the risks associated with meeting a business objective.

1. Erroneous records and/or information
2. Unacceptable accounting principles
3. Business interruption
4. Government criticism or legal action
5. High costs
6. Unrealized or lost revenue
7. Loss or destruction of assets
8. Competitive disadvantage and/or public dissatisfaction
9. Fraud or conflict of interest
10. Inappropriate management policy and/or decision making process

Ten Universal Business Risks, from *Computer Control & Audit* by William C. Mair, Donald R. Wood, and Keagle W. Davis.

## FIVE SOURCES OF RISK

- ⊙ **Loss of Reputation or Rating** - Often called “**Front page risk**”. Many organizations rely on their good name or branding to identify themselves in the market. A loss of customer confidence could have devastating impacts. Ratings can also affect cost of capital and inability for companies to raise funds.
- ⊙ **People or Intellectual Capital** - Most organizations claim their biggest asset is their people but then do very little to mitigate against a loss. Employee turnover and the **loss of their experience and information** is risk often overlooked.
- ⊙ **Technology** - The speed at which technology moves and changes makes this a constant risk to contend with. The phrase “the only constant in this world is change” is particularly true with regard to technology.

Continued...

## FIVE SOURCES OF RISK

Continued...

- ◎ **Competition** - For most industries, **competition is global with rules and regulations.** The playing field is often very different. Knowing who your competition is, is also important.
- ◎ **Expenses** - Control over expenses remains a constant risk. **Spending less than you make is a fundamental business concept.**
- ◎ Once the risks are identified, the next step is to identify the controls in place to mitigate those risks.

## SECTION 2

### SELLING THE BENEFITS OF GOOD BUSINESS PRACTICES

# RISK ASSESSMENT

When these high impact/high probability events are identified, management can choose to the best way for handling it.

1. Accepting the risk

2. Minimizing the risk

- ◉ Implementing controls policies and procedures - segregation of duties, safeguarding of assets.

- ◉ Transferring or sharing of risk through insurance, bonding, contract agreements.

- ◉ Diversifying operations

3. Rejecting the risk - Cease doing the activity that creates the risk.

## SECTION 2

# SPREADING THE GOOD WORD - EDUCATING AUDIT CLIENTS

- ◉ Seeing the world through the eyes of an auditor allows the audit client to appreciate why auditors think internal controls are important and to understand the potential impacts of risks.
- ◉ Seeing the big picture allow the audit client to better appreciate how what they do affects the overall organization.
- ◉ Seeing how the client's outputs affect others' inputs can help the client to better understand the needs of their internal customers
- ◉ Seeing how the outputs of others affect the clients inputs can help the client be a better internal customer.

## SECTION 2

SPREADING THE GOOD WORD - EDUCATING AUDIT CLIENTS

# THE CARES ACRONYM

**C**ompliance with established rules, laws, policies, plans and procedures

**A**ccomplishment of established objectives and goals

**R**eliability of information

**E**ffective and efficient use of resources

**S**afeguarding of assets

## **SECTION 3**

**Marketing the Internal  
Audit Function -Creating  
a friendlier audit/client  
work environment.**

## SECTION 3

### MARKETING THE INTERNAL AUDIT FUNCTION - CREATING A FRIENDLIER AUDIT/CLIENT WORK ENVIRONMENT.

- Taking the adversity out of auditing
- How auditors can be a welcomed resource
- Partnering with management

### SECTION 3

## TAKING THE ADVERSITY OUT OF AUDITING

- ◉ Getting the audit client to a happier place should be the objective of most audits.
- ◉ Establishing a working rapport with our client base builds trust and openness, and a willingness to share information and participation.
- ◉ Don't be a stranger to your audit clients/customers. When they know you for who you are, not just what you do, they will contact you to help them solve problems.

SECTION 3

# HAPPY AUDIT CLIENTS



### SECTION 3

# THINGS AUDIT CLIENTS FEAR (SURVEY RESULTS)

- ◎ Loss of Control
- ◎ Blame by Leadership
- ◎ Damaged Reputation
- ◎ Criticism
- ◎ Media Portrayal

# THE ACCOUNTANT/AUDITOR

HOW WE SEE OURSELVES



# THE ACCOUNTANT/AUDITOR

HOW OTHERS SEE US

BEN STEIN





After many years of marital bliss, tension enters the Kent household.

### SECTION 3

## HOW AUDITORS CAN BE A WELCOMED RESOURCE

- ◉ Performing advisory/consulting services beyond our audit services, helps us better understand the client's business and establishes the auditor as a reliable resource.
- ◉ Finding the positives creates a audit report that the audit client will read and pay attention to.
- ◉ A report that reports on what's working well (as well as opportunities to improve) provides a balanced account of well the client's operation is working.
- ◉ Giving the audit client kudos for their qualities and achievements builds rapport and helps ensure the client's buy-in to the audit process.
- ◉ Giving credit for corrective actions already taken, shows the client's focus on improvement and support of the audit.

## QUESTIONS TO ADDRESS WITH MANAGEMENT

Questions for inviting ideas for improvement opportunities:

- What are some ideas that **you are aware of** for making the **process better**?
- What are some **ideas** that **you are aware of** for **reducing costs**?
- What are some ideas that **you are aware of** for **combining** or **rearranging** parts of the process?

# HOW TO BE HEARD

## 1. WIIFM? - What is in it for me?

Management needs to know why they should invest the time and effort in participating in an audit project.

## 2. The “Why” before the “What”

Telling people their reason for the change, before telling them the “what” the change will be, is more likely to get their attention and their acceptance.

## 3. IWWCW? - In what ways can we...

- increase sales?
- reduce costs?
- improve internal controls?
- reduce inventory shrinkage?
- reduce employee turnover?
- improve any of the many other operational issues?

# PARTNERING WITH MANAGEMENT

- ◉ Establishing that we are all working on the same team makes the auditor a team player, not an adversary.
- ◉ Establishing that the audit team is here to serve the client achieve its objectives, makes us a positive force.
- ◉ Establishing that we are here to help the client succeed helps the client see us as an asset rather than as buttocks.
- ◉ Establishing that we can help the client stay out of trouble helps the client see us as a service to seek out, rather than one to avoid.

### SECTION 3

## EXPLAINING THE AUDIT REPORTING PROCESS

1. Potential Audit Concerns Discussions
2. Pre-Exit Meeting
3. Exit Meeting
4. Final Report

## QUOTE FROM AN EXECUTIVE TEAM MEMBER

“We are not **afraid** of you anymore – we know that we **can rely** on your assurances and recommendations. You are **a benefit** to us!”

Later

“you are not **the GOTCHA** auditors”

### SECTION 3

## THE REPORTING PROCESS - A GOOD AUDIT REPORT HAS NO SURPRISES

- Establishing Communications Channels
- Explaining the Audit Reporting Process
  - Components of an Audit Comment
- Keeping Management Informed From Start to Finish
  - Preliminary Audit Comments
  - Draft/Pre-Exit Discussions
- Final Draft Discussions
  - Recommendations
  - Management Action Plan
  - Target Date
  - Audit Follow-up

# ESTABLISHING COMMUNICATIONS CHANNELS

Seeing events from management's point of view

Seeing, through the eyes of management, the organization and daily events that take place, helps auditors provide a value-added product.

**By having a "seat" at the table!**

## PROCESS REVIEW AND RISK ASSESSMENT

- **Teamwork** - In order to carry out the process successfully, auditors need to partner with operational management and staff throughout the audit process.
- **Becoming Familiar with Management's Business Objectives** - Auditors are expected to have a sufficient knowledge of the business and good business practices to be able to determine audit objectives that are relevant to the operations. They need to have the skills to **work productivity with** operational management to develop these concerns into an audit plan, testing program and audit report.
- **Involving Management in the Audit Process** - The auditor's role is to define, map out and **guide** the process, **facilitate** the gathering and analysis of information, **design** the appropriate tests and **work with** operational management and staff in identifying problems, causes and the best cost/effective solutions.

## GIFTS FOR THE AUDIT CLIENT

### GIVE THE CLIENT MORE THAN AN AUDIT REPORT

- Narratives and questionnaires.
- Flowcharts based on narratives and walk-throughs
- Evaluation of policies and procedures

# QUOTE FROM AN IT AUDITOR

**“We build 10 foot walls to protect ourselves from people who have 15 foot ladders.”**

## REENGINEERED TO ENHANCE VALUE ADDED SERVICES

Why?

- ◉ To increase audit resource efficiency and effectiveness;
- ◉ To attain a more focused, more proactive, and more manageable audit process;
- ◉ To implement better use of our electronic audit management system;

## REENGINEERED TO ENHANCE VALUE ADDED SERVICES

### Challenges....

- ◉ Got rid of the old - brought in the new (**who says you can't teach an old dog new tricks**)!
- ◉ 13 months from start to finish;
- ◉ Over 1000 labor hours

## REENGINEERED TO ENHANCE VALUE ADDED SERVICES

Results....

- ◉ More narrowly focused and more meaningful audits;
- ◉ Less disruption to the client's operation;
- ◉ More timely audit reports;
- ◉ An electronic reporting structure;
- ◉ An automated management response structure; and
- ◉ An electronic follow-up process.



I FINISHED THE  
PROJECT ON TIME  
AND ON BUDGET!

RIGHT, NEXT  
PROJECT YOU GET  
LESS TIME AND  
LESS MONEY!

## REENGINEERED TO ENHANCE VALUE ADDED SERVICES

9 months after all phases of the reengineering were complete.....

- ⦿ The CAE has a seat at the Executive Team's table;
- ⦿ Executive Team members have reached out for assistance (not audit plan related) five times this calendar year; and
- ⦿ Fraud and Internal Control Training request for Directorate level management.
  - Approximately 60 business owners participated during 11 training sessions entitled "**Designing Controls with Risk in Mind.**"

## **REENGINEERED TO ENHANCE VALUE ADDED SERVICES**

Recognition....

In August 2014, after all phases of the reorganization were complete, the IIA External Quality Assessment Review team leader communicated to The IIA's global headquarters that County Audit's newly optimized operations conform to all GAGAS and IIA Standards, and should be shared with other internal audit activities at an IIA conference.

# WHEN THE CLIENT LISTENED

- ◉ Recreation Center's unrealized revenue;
- ◉ Thonotosassa Cemetery
- ◉ MP2
- ◉ Youth Athletics
- ◉ Security Residences
- ◉ Hydro Axe Mowing
- ◉ Approvals

## And when they didn't!

- ◉ Overtime
- ◉ Anticipated Revenue - \$200,000

Every Audit Is An  
Unpredictable  
Adventure  
In Human Behavior



# WHAT YOU CAN DO

- Keep the Focus on Organizational Improvement
- Acknowledge the Client's Resources Limitations & Business Environment
- Seek & Give Counsel to Higher Authorities when Audits "Turn Sour"
- Maintain Positive Tone in All Documents
- Ask Clients to Consider an Audit Liaison Function

# DOG BROTHERS





"I'll have what she's having."

*When Harry Met Sally...* 1989

# Seminar Conclusion

**"There's no place like home."**

# Seminar Conclusion

"There's no place like  
home."

'The Wizard of Oz' (1939)

# Contact Information

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