Webinar Logistics

- 5 minute break each hour
- Finish at 3PM EST, 12PM PST
- Periodic Polling Questions - must answer 90% to receive NASBA certified CPE credits
- **LINK TO MATERIALS:** this was included in the email you received with login credentials
- Questions? Submit via chat function!
  - Content questions: Kathleen Crawford/Presenter
  - Technical or audio questions: MISTI Webinar Series/Host
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- Live in Massachusetts
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SECTION I
CONSULTING AS PART OF OUR ROLE
Preview of Key Points

- Definition of Internal Auditing and Consulting
- Reasons for Trend Towards Consulting
- Benefits of Consulting
- IIA Standards
- Types of Consultants and Consulting Projects
- Skills of Effective Consultants
- Phases of Consulting and Types of Projects
- Types of Projects
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Definition of Internal Auditing

- 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.
Consulting Services

- Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization’s governance, risk management, and control processes without the internal auditor assuming management responsibility.
- Examples include counsel, advice, facilitation, and training.
- Advise means to give information, recommend, warn.

You are consulting every time you give advice to someone who is in a position to make the ultimate choice or decision.
Reasons for Trend Toward Consulting

- Demands for better assurance and understanding of operational risks
- Better use of internal auditors’ expertise
- Need for increased organizational productivity and higher profitability
- Elimination of non-beneficial controls
- Avoid no-win situations
- Help business managers commit to make needed improvements
- Emphasis on preventing and detecting fraud
- Increased reliance on IT systems and process automation
- Develop better recommendations that are implemented more frequently
- Become better partners with business managers
- Increasing interest in GRC and COSO ERM
Benefits of Consulting

- Offsetting costs that would otherwise go to outside consultants
- Continue and enhance relationships with auditees
- Available to provide assistance before, during and after the engagement
- Availability to help business whenever necessary
- In-depth knowledge of the organization
- Ability to leverage and expand audit knowledge
- Use of internal and external benchmarking
Benefits of Consulting

- Use of cost analysis methods learned during audits
- Use flowcharting and narrative information to facilitate process reengineering efforts
- Increased visibility for internal audit
- Opportunity for internal auditors to expand their collaboration with process owners and their knowledge of these areas
IIA Standards

1000 – Purpose, Authority and Responsibility

- The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1000.C1 – The nature of consulting services must be defined in the internal audit charter

1130.C1 – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities

1130.C2 – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement

1210.C1 – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills or other competencies needed to perform all or part of the engagement
1220.C1 – Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement’s objectives; and
- Cost of the consulting engagement in relation to potential benefits

2010.C1 – The chief audit executive should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value and improve the organization’s operations. Accepted engagements must be included in the plan.
IIA Standards

2120.C1 – During consulting engagements, internal auditors must address risk consistent with the engagement’s objectives and be alert to the existence of other significant risks

2120.C2 – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization’s risk management processes

2120.C3 – When assisting management in establishing or improving risk management processes, *internal auditors must refrain from assuming any management responsibility by actually managing risks*

2130.C1 – Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization’s control processes
IIA Standards

2201.C1 – Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations. *For significant engagements, this understanding must be documented.*

2210.C1 – Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client.

2210.C2 – Consulting engagement objectives must be consistent with the organization’s values, strategies and objectives.
2220.C1 – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2220.C2 – During consulting engagements, internal auditors must address controls consistent with the engagement’s objectives and be alert to significant control issues.

2240.C1 – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.
IIA Standards

2300 – **Performing the Engagement**: Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.

2310 – **Identifying Information**: Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement’s objectives.

* **Sufficient** information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor.

* **Reliable** information is the best attainable information through the use of appropriate engagement techniques.

* **Relevant** information supports engagement observations and recommendations and is consistent with the objectives for the engagement.

* **Useful** information helps the organization meet its goals.
IIA Standards

2330.C1 – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization’s guidelines and any pertinent regulatory or other requirements.

2410 – **Criteria for Communicating:** Communications must include the engagement’s objectives and scope as well as applicable conclusions, recommendations and action plans.

2410.C1 – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.
2440.C1 – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2 – During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

2500.C1 – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.
Types of Consultants

- **Advisory Consultants:** Analyze problems and give recommendations to the client. Do not implement.

- **Operational Consultants:** Advise and help client during implementation or handle implementation on their own.

- **Process Consultants:** Skills-oriented generalists with expertise in one or more technical areas.

- **Functional Consultants:** Apply their skills to a particular environment. For example, a hospital facilities expert would concentrate on consulting to hospitals.
Types of Projects

- Compliance audit
- Financial audit
- Due diligence audit
- Operational audit
- Performance review
- Cost analysis
- IT pre-implementation review
- Review quality of reports

Auditing

- Benchmarking
- Control Self Assessment (CSA)
- Training
- Develop Policies & Procedures
- Reengineering
- Process Design
- System Development
- Strategic Planning

Consulting
Consulting = Operational Auditing?

- Operational Auditing is similar...
- Purpose: Analyze and Improve
- Scope: Business Operations, particularly:
  - Efficiency
  - Economy
  - Effectiveness
- Focus: Future Implications of Current Conditions
- Audience/Client: Management
- Necessity: Optional
An internal audit of an operating department, or of any department which has as its principal objectives:

- The **examination of the control structure** for which the department is responsible
- The **utilization of the general knowledge of the internal auditor** pertaining to company operations in the examination of departmental controls and operations in relation to general company policies
Phases of an Operational Audit

Viewed in broad aspects, the approach and general plan of an operating department is the same as that of a financial department. The steps by the internal auditor may be summarized as follows:

- Familiarization
- Verification
- Evaluation
- Reporting
Phases of Consulting

- **Entry:** Initial contact with the client, explore problem, are you the right person, expectations, how to get started

- **Data Collection:** Define the problem, what data should be collected and how will it be analyzed, how long will this take?

- **Planning:** Set goals, how will they be achieved?

- **Implementation:** Execute plans – who will do it, how, by when and with what resources?

- **Review:** What worked, what didn’t? Is the problem present somewhere else?
Skills of Effective Consultants

- **Technical:** Expertise in a field or function
- **Analytical:** Quantitative and problem-solving
- **Organizational:** Ability to communicate with other units
  - Go beyond accounting and financial controls
  - Leverage knowledge of industry trends and developments
  - Beyond processes and controls: broad understanding of the organization’s strategic direction, objectives and goals
  - Embrace and drive change
Skills of Effective Consultants

**Interpersonal:** ability to interact and put ideas into words

- Personality: Give Support
- Patience: Listen
- Courtesy: Maintain Relationships
- Professionalism: Disagree Reasonably
- Assertiveness: Confrontation

The key is *practical problem-solving*. To do this, you must use your technical skills and apply them effectively as you contract, diagnose problems, collect and analyze data, report results and address resistance.
Skills of Effective Consultants

- Analytical
- Researching
- Listening
- Negotiation
- Planning
- Creativity/Innovation
- Writing
- Systems Thinking
- Business Acumen
- Human Interaction

- Public Speaking/Presenting
- Attention to Detail
- Curiosity
- Think Process, not just project
- Patience
- Sense of Time & Urgency
- Facilitation
- Technology know how
Skills of Effective Consultants

- Assertiveness/Decisive Decision-Maker
- Clear Goals
- Participative Style
- Importance of Data: Objective and Personal
- Gaining employee support and commitment
- Fix problems at the root so they stay solved
Your Responsibility as a Consultant

- You only have control and responsibility for yourself
- You are there to help solve a problem
- The manager owns the process and makes the decision to implement or not your recommendation
- You cannot control how the manager runs the operation
- Use problem-solving techniques to recommend improvements in the organization’s condition

Help the client identify the problem

Together find the best solution
Demonstrating Your Role

- Develop trust – share your insights, be an advisor
- Show that you are objective
- Offer a fresh perspective
- Create up-front agreements
  - Roles and responsibilities
  - Protocol for status updates
- Become part of the team without becoming an “employee”
- Model consulting skills to client staff
- Include them in decisions
- Explain why you do things
- Make actionable recommendations
- Be knowledgeable
Demonstrating Your Role

- Provide status reports
  - Report on results, not just actions
    - Not what you did (e.g. all the tests performed)
    - Focus on what you discovered, things the client didn’t know
  - Maintain a “parking lot” of observations, recommendations, and things to look into further
- Assimilate without losing independence
- Limit perception of being an outsider
- Act as a consultant, not just an auditor – avoid the traditional “I’m right, I’m here to find your mistakes” attitude of the past.
- Help facilitate, not just assess.
- Focus internal audit activities on helping the organization achieve its objectives – identify critical success factors and core processes
Preserving Our Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Interpretation:

*Independence is the freedom from conditions that threaten the ability of the internal audit activity or the chief audit executive to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship.*

*Threats to independence must be managed at the individual auditor, engagement, functional and organizational levels.*
Preserving Our Independence and Objectivity

- Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made.

- Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.
Risks and Challenges When Consulting

- Avoid acting as a surrogate line manager
  - “Prepare this report for me”
  - “Train this employee”
  - “Design this system for me”
  - “Write the policy and procedures for this process”

Don’t do the manager’s job.
Help the manager do the job.
SECTION II

CONTRACTING AND DATA ANALYSIS
Preview of Key Points

- Contracting
- Computer Assisted Audit Tools
- Data Analysis
- Key Risk Indicators
Elements of the Agreement/Charter:

- Scope
- Objectives
- Information requirements
- Roles and Responsibilities
- Description of milestones, deadlines and deliverables
- Resources
- Reporting
- Feedback
Elements of the Agreement/Charter:

- Name of the project’s sponsor
- Relationship between the project’s goals and the organization’s goals
- Benefits of the project to the organization
- Expected timeframe of the work
- Description of the project deliverables
- Budget and resources available to the project team
- Project Manager’s authority
Contracting

- Elements of the Agreement/Charter:
  - Priorities
  - Description of users
  - Business case for the project
  - Cost estimates
  - Milestones and deadlines
  - Project leader and initial staffing information
  - Identified dependencies
  - Key constraints and assumptions
  - Known issues and high-level risks
Contracting

- Negotiation
  - Be clear who the client is and why you are there
  - Agree what the client and you want from the project
  - Discuss what each party will provide/do
  - Be careful not to understate or overstate what you want or can do
  - Be careful if the client does not get involved
  - Be clear if this is an audit or not (e.g. is there going to be a report at the end, if so, what kind?)
Contracting

- Responsibility for the engagement must be 50/50
- Make sure you contract with the right person
- Know who the client *really* is
- It doesn’t have to be in writing, but it helps
- Agree on the terms of your exit from the project
- Include deadlines and duration whenever possible
- Renegotiate if things are not working

Try to avoid unstable, unrealistic, unclear or impossible projects.
Key Contracting Dynamics

- Re-state your understanding of the problem
- Acknowledge the unique aspect of the client’s situation
- Reassure the manager that the problem is solvable and that you can help
- Discuss client’s wants and offers
- Discuss your wants and offers
- Reach an agreement
- Show support
Key Contracting Dynamics

- Agree and communicate what you will and will not do
- Agree and communicate what the client will and will not do
- Define the scope of the project
- Agree on the frequency and manner of communicating
- Decide what reports will be provided, when and to whom
- Agree on the milestones and progress reviews needed
- Agree on how success will be measured at the end and during the engagement
- Check with the client what areas are off limits or any people the client does not want you to speak to
Key Contracting Dynamics

- Types of contracts
  - Formal, hard-copy with signatures
  - Letter or memo of agreement
  - E-mail(s)

- Fees
  - Fee per service
  - Based on hours of service provided
  - Based on attainment of objectives
Computer Assisted Audit Tools (CAATs)

- CAATs are widely used by internal audit departments.
- CAATs allow auditors to test 100% of the transactions, using specific parameters.
- Advantages
  - Volume of data is too great to evaluate manually
  - Automated tools allow the auditor to analyze a sample of transactions or all of the transactions
  - CAATs routines can be retained for use on other audits
What Tools Do You Use?

- ACL (40%)
- Excel (21%)
- Database Tools (14%) - Access, Oracle, SQL
- IDEA (5%)
- SAS (4%)

Source: “Audit Software Usage Survey”, Internal Auditor Magazine
Audit Routines of Audit Software

- Sample
- Sort
- Summarize
- Join
- Merge
- Extract

- Stratify
- Recalculate
- Export
- Sequence duplicates
- Sequence gaps
- Age
Data Analysis – Planning

- Identify necessary data … very difficult!
- Where is it located?
  - Mainframe, client/server, end user
  - Database or flat files
- Is data readily adapted to planned use?
  - How difficult will the extract and formatting process be?
  - How much time will it take to do so?
Data Analysis – Planning

- How will the data be obtained?
  - Direct access to files or databases can become a political and security issue
  - Asking IT for data may take longer and you will need assurance that all of the data was obtained
- Does the internal audit department have the skills to do the extraction?
- Are all data files in the same format?
- Do you have all the data and the correct data?
- Need to reconcile the data to ensure that you are not going down the wrong path!
Data Analysis – Data Verification

- Always verify data to official records
  - Inaccurate data analysis resulting in invalid control recommendations will have a very negative impact on the audit department’s reputation
- Confirm you have an accurate and complete data set
  - Reconcile extracted data to summary reports or financial records
  - Identify format issues including misplaced decimals
- Use statistics to verify data is reasonable
  - Range of values
  - Data is consistent with expectations
Examples of data reconciliation:
- Customer order information to reported sales
- Payroll information to HR master data
- Payable information to financial statements
- Credit files to accounts receivables information
- Fixed asset records to asset accounts
- Pricing information to master data files
Key Risk Indicators (KRI)

- Key Risk Indicators are used to indicate the possibility of future adverse impacts
- They track exposures and highlight the risk of loss resulting from inadequate processes, systems, external events or human performance
- They provide objective periodic monitoring to identify risk drivers
Key Risk Indicators (KRI) Examples

- The number of customer complaints
- Staff turnover
- The number of audit findings
- The frequency or number of unmatched trades
- Number of critical system outages
- Average delay executing transactions
- Late trades compared to trading volume
- Number of legal claims
- The number of external attacks on system firewall
- Error rates
Key Risk Indicators (KRI)

- When used with pre-established triggers and thresholds, KRIs help management identify events that point to risky conditions.
- They help management monitor and identify conditions that require early intervention so it is a good idea to establish escalation procedures so as the KRI breaches a threshold or reaches a trigger point, the matter can be escalated to the appropriate level of management.
KRI Attributes of Quality and Effectiveness

- Be measurable at specific points in time
- Use objective data to quantify frequencies, severities, cumulative losses or near-misses
- KRIs should be quantified as amounts, percentages or ratios
- Have values that are comparable over time
- Be reported timely, cost effectively and be readily understood
KRI Benchmarking Benefits

- An opportunity to learn from peers and exchange information
- Increased awareness of risk exposures within the organization
- Ongoing development of standard language and tools for the identification, measurement, management, monitoring and mitigation of operational risks
SECTION III
IDENTIFYING PROBLEMS
Preview of Key Points

- Key Elements of Data Collection
- Problem Definition
- Tools to Expand Thinking
- Tools to Focus Thinking
- Examples of People Issues
Key Elements of Data Collection

- Interviews
- Questionnaires
- Document reviews
- Data analysis
- Direct observation
- Facilitated meetings
- Focus groups
- Benchmarking/Best Practices
Problem Definition

- Examine the problem objectively
- Identify the facts and feelings surrounding the problem
- Identify the key components and players of the problem
- Get involvement from those affected by the problem
- Challenge common assumptions and perceptions
- Understand the root cause of the problem
- Avoid treating symptoms
Problem Definition Questions

- Why is this a problem?
- Is this a problem or is it the reaction that is the problem?
- What is the scope of this problem?
- Who is affected? How?
- Where can more information be found?
- When did it become a problem?
- What precipitated the situation?
- What seems to be causing the problem?
Remember...

- Poorly defining the problem can inhibit or delay finding the best solution
- How you define the problem will influence the solution
- Different people will see the same problem differently
- Clarify the team’s definition of the problem
- Collect data and information that will help you understand the situation and the root cause

If you don’t define the problem well, you will likely get an insufficient solution.
Tools/Techniques to Expand Thinking

- Appreciation*
- Affinity Diagram*
- Brainstorming
- Brain-writing
- Fishbone Diagram
- Force-field Analysis
- Mind map*
- Storyboard*
- Survey*
- Voice of the Customer Table
Tools/Techniques to Focus Thinking

- Decision Matrix
- Decision Tree
- Five Whys
- Histogram
- Hypothesis testing
- Is/Is Not matrix
- Multi-voting
- Paired Comparison
- Pareto chart
- Sampling
Examples of People Issues

- Fear
- Insecurity
- Mistrust
- Apathy
- Belief that management lacks commitment to follow through and sustain solutions
Ask the client what the problem is

Add to the discussion other possible underlying causes. Probe further, for example:

- Has the problem been isolated to certain people, locations, times, shifts, products/services, vendors?
- Could it be due to a lack of knowledge?
- How much is due to poor supervision?
- Are the expectations for compliance and the penalties clear? How are they being enforced?
Preview of Key Points

- Key Elements of Solving Problems
- Key Questions
- Root Cause Analysis
- The Importance of Collaboration
- Seven Resources
Key Elements of Solving Problems

- Look for the root cause
  - Avoid treating symptoms and not the underlying problem(s)
  - Make sure to show the client your rationale

- Pay attention to politics
  - Affects behavior and communication
  - Affects ability and/or willingness to solve problems. Don’t ignore it, it will likely affect you, too.

- Draw full story/data from people
  - Direct or passive resistance?
  - Situational constraints
  - Psychological
  - Emotional constraints
Key Elements of Solving Problems

- Focus on factors that are under the manager’s control and are relevant to the problem
- Keep the client involved
- Balance your judgment with data
- Examine how the problem is being managed
  - Workarounds
  - Re-work
  - Waste
- Look at the personalities, relationships and politics around the issue
Key Elements of Solving Problems

- Find out the client’s role causing or preserving the problem
- Find out what others are doing to cause or preserve the problem
- Partner with the client to collect and interpret the data
- Find out how the manager manages the staff
- Use business terminology, not audit’s
- Find out how the problem affects the business and how it is being managed
Key Elements of Solving Problems

- Be knowledgeable and confident – not rude, forceful, or arrogant
- Help clients discover the answer rather than telling them
- Apply effective communication techniques
- Communicate often, professionally and competently
- Build rapport
- Align project and deliverables to organizational objectives
- Seek opportunities to streamline processes, eliminate redundant controls and outdated procedures
- Always ask “why”, not just what, how, who, where and when
Key Elements of Solving Problems

1. Define the problem
2. Formulate solutions
3. Choose a solution
4. Implement the solution
5. Evaluate the solution
1. Define the Problem

- Ask the right questions or you will not get the right answers (solutions)
- Determine the real situation – don’t focus on symptoms
- Isolate the root cause of the condition
- Avoid defining the problem in terms of a particular solution (pre-conceived notion of what is going on)
- Avoid addressing insignificant issues at the expense of more important matters
- Avoid tunnel vision (Many people see what they expect to see and/or what the group wants.)
2. Formulate Solutions

- Requires the most creativity
- Avoid limiting your attention to one solution
- Balance analytic (objective, logical) with intuitive (subjective, unstructured) approaches
- Complex and dynamic environments require an ability to detect and solve problems creatively
- Evaluate the quality and the cost of the information
3. Choose a Solution

- Resolve it – find an adequate solution
- Solve it – find the optimal/best solution
- Dissolve it – find a solution that changes everything so the problem cannot occur

- Remember cost/benefit considerations. Balance efficiency and effectiveness
- Resource constraints and politics often limit the solution to the best *relative* solution
- The solution should make the criteria and condition the same
4. Implement the Solution

- Communication is key
- Consider the people, technology and process
- Sell the solution and its benefits
- Involve those affected in the solution and implementation
5. Evaluate the Solution

- Follow up on the results and link to performance measures
- If the problem recurs or persists over time
  - Redefine the problem
  - Try other solutions
What is Missing and/or Incomplete?

Root Cause Analysis!
Root Cause Categories

- Physical causes
  - Something broke
  - Something failed to operate properly

- Human causes
  - Someone did the wrong thing
  - Someone didn’t do something

- Organizational causes
  - Faulty systems
  - Faulty processes
  - Faulty policies
  - Intersect with human factors
Root Cause Analysis Process

1. Define the problem
   - What do you see happening?
   - What are the specific symptoms?

2. Collect data
   - What proof is there of a problem?
   - How long has the problem existed?

3. Identify possible causal factors
   - What events led to the problem?
   - What conditions allowed the problem to occur?
   - What other problems surround the central problem?
4. Identify the Root Cause(s)
   - Why does the causal factor exist?
   - What is the real reason the problem occurred?

5. Recommend and Implement Solutions
   - What can be done to eliminate the problem?
   - How will the solution be implemented?
   - Who will be responsible for implementation?
   - What are the costs of this solution?
   - What are the risks of this solution?
Evidence and Testing Alternatives

- **Inquiry** - gathering of information through an interview rather than by inspection or review of available evidence

- **Observation** of a procedure being performed, usually observing the employee that normally performs the control function

- **Inspection/examination** - reviewing supporting documentation for evidence of the control performance. Inspection can provide evidence that the control was performed in the manner planned

- **Reperformance** - The process of re-executing the operation of a control using selected transactions, etc. This testing option provides greater assurance than the others listed above
Remember Persuasiveness of Evidence

- **Sufficient** information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor.

- **Reliable** information is the best attainable information through the use of appropriate engagement techniques.

- **Relevant** information supports engagement observations and recommendations and is consistent with the objectives for the engagement.

- **Useful** information helps the organization meet its goals.
Key Questions

- Who else has to agree to the solution?
- Are the alternatives feasible?
- Did we involve the manager to formulate the problem, identify data, evaluate alternatives and choose possible solutions?
- Is the manager committed to the process and the results?
- Is the manager making people available to solve the problem?
- If you are doing it all yourself, will they commit to the solution you recommend?
Key Questions

- How much will it cost?
- What are the benefits?
- How long will it take to see the benefits?
- Whose benefits are they anyway?
- Should you meet with people individually or in a group?
- Have you/anyone tried to solve the problem before? What were the results? Why?
- What is happening upstream and downstream?
Key Questions

- What can be automated?
- Who do you depend on and why?
- Is there another way of getting what we need (e.g. information, resources)?
Collaborate and Build Partnerships

- You may be an accounting, inventory or systems expert, but do you know the client, where the data is and what has been tried but failed in the past?

- Remember:
  - The technical element may be only part of the solution
  - Internal politics often play a role
  - Importance of communicating with the staff
  - Data analysis also involves interpretation

Collaborate and Build Partnerships
Seven Key Resources

- People
- Money
- Equipment
- Facilities
- Materials and Supplies
- Information
- Technology

Also Very Important!
- Cost estimates for each resource
- Availability of each resource
- Estimated quality and output for people and equipment
SECTION V

BECOMING A CHANGE AGENT
Preview of Key Points

- The Implementation of Solutions
- The Change Process
- Responses to Change
- The Resistance to Change
- Conflict Management
Implementation

- Communication vitally important – keep users involved
- Set milestones based on objectives instead of timeframes
- Consider the benefits of a pilot program first
- Focus on quality
- Market the implementation, results and benefits
- Set realistic expectations and communicate them frequently and widely
- Build a reasonable buffer
- Have a change management process
- Manage user acceptance testing and user training
- Gather data for best practices and lessons learned
Roles in the Change Process

- **Advocates**: leaders recognize the need for change, develop a business case for it and advocate for changes
- **Sponsors**: members of senior management support the change initiative after advocates show that change is necessary
- **Agents**: individuals who manage the project to introduce the new process
- **Targets**: individuals who are affected by the change must be persuaded to change how they work
The Change Process

- Outline responsibilities for key communications, such as memos and meetings and get sponsors to commit
- Develop metrics that define the initial process and can be used to show results of the new process
- Use success stories and results from pilot sites to persuade target audience to cooperate
- Provide training, orientation, road shows to educate targets
- Involve Targets in change planning and implementation as much as possible
The Continuum of Responses to Change

<table>
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<tr>
<th>Acceptance</th>
<th>Indifference</th>
<th>Passive Resistance</th>
<th>Active Resistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Acceptance</td>
<td>- Apathy and loss of interest in the job</td>
<td>- Nonlearning</td>
<td>- Slowing down</td>
</tr>
<tr>
<td>- Passive resignation</td>
<td>- Doing only what is ordered</td>
<td>- Protests</td>
<td>- Personal withdrawal (time off increases)</td>
</tr>
<tr>
<td>- Indifference</td>
<td>- Regressive behavior</td>
<td>- Working to rules</td>
<td>- Committing &quot;errors&quot;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Spoilage</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Deliberate sabotage</td>
</tr>
</tbody>
</table>
The Stages of Change

<table>
<thead>
<tr>
<th>Stage</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Denial</td>
<td>Individuals assure themselves nothing will change. Acceptance of reality is difficult and others show little concern</td>
</tr>
<tr>
<td>2. Resistance</td>
<td>Employees experience self-doubt, anger, depression, uncertainty, fear and frustration. Productivity falls while people rework their resumes. Grumbling is common and there may be sabotage or fraud</td>
</tr>
<tr>
<td>3. Exploration</td>
<td>While employees accept that things will change, there is usually a lack of focus as people try to adapt to the new reality</td>
</tr>
<tr>
<td>4. Commitment</td>
<td>Employees accept they have to learn new processes, technologies or how to negotiate new interpersonal relationships. Roles and expectations become clearer. Focus and productivity improve</td>
</tr>
<tr>
<td>Stage</td>
<td>Characteristics</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>1. Plan</td>
<td>• Identify the problems and defects, and discuss with team and target</td>
</tr>
<tr>
<td></td>
<td>• Gain support for change and assign sponsor</td>
</tr>
<tr>
<td></td>
<td>• Plan, define, staff and identify needed resources</td>
</tr>
<tr>
<td>2. Baseline</td>
<td>• Gather data on current process</td>
</tr>
<tr>
<td></td>
<td>• Describe the “as is” process and identify root causes of problems</td>
</tr>
<tr>
<td>3. Develop Changes</td>
<td>• Identify options for a new process</td>
</tr>
<tr>
<td></td>
<td>• Find opportunities to reduce waste, rework, delays, unnecessary activities and other actions with little value</td>
</tr>
<tr>
<td></td>
<td>• Consider automation, refine steps, reduce loops</td>
</tr>
<tr>
<td></td>
<td>• Describe the “future state” that incorporates changes</td>
</tr>
<tr>
<td></td>
<td>• Present the new process to stakeholders and get approval to proceed</td>
</tr>
<tr>
<td>4. Implement</td>
<td>• Document new process, create reference docs and training materials</td>
</tr>
<tr>
<td>5. Measure Results</td>
<td>• Compare results from new process with initial metrics. If improvements noted, end project. If changes fail, analyze and fix, revert to original process or try again</td>
</tr>
</tbody>
</table>
Why People Resist Change

- Loss of job security
- Surprise and fear of the unknown
- Economic factors
- Threats to expertise
- Fear of failure
- Loss of status or job security
- Habit
- Threat to the control over resources
Why People Resist Change

- Predisposition towards change
- Climate of mistrust
- Peer pressure
- Disruption of traditions or group relationships
- Personality conflicts
- Lack of tact or poor timing
- Lack of reinforcement from reward systems
Dealing with Resistance

- How do you know it is happening?
  - Asking for excessive detail or questioning methodology
  - Excessive and unnecessary details
  - Constant interruptions or delays
  - Claiming confusion
  - One-word answers or outright silence
  - Moralizing
  - Too quick to agree – overly compliant
  - Attack
  - Changing the subject
Dealing with Resistance

- How do we resolve it?
  - Identify it
  - Ask the client about it
  - Be quiet – let the manager respond
- Don’t take it personally
- Show confidence
Why Is There Resistance?

- Someone may get disciplined or fired
- The manager may be considered incompetent
- The manager’s boss may be the problem
- Poor communication
- Qualifications or approach unclear
- Recommendations are not feasible or practical
- Need to “save face”
- Fear of the unknown, change
- Personality
Overcoming Resistance to Change

- Education and Communication
  - Who, what, when, where and how
  - Almost impossible to over-communicate
  - Use e-mail, memos, meetings

- Participation and Involvement
  - People often support what they helped to create

- Facilitation and Support
  - Counseling, training, relocation, leave of absence

- Negotiation and Agreement: Identify/provide rewards
Additional Recommendations

- The organization must be ready for change
- People may not be consciously resisting change
- If well planned, radical change may be better than incremental change
- Manage employee perceptions and interpretations as those factors affect resistance
<table>
<thead>
<tr>
<th>Cause</th>
<th>What to do about it</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overlapping responsibilities</td>
<td>Establish clear activity definitions</td>
</tr>
<tr>
<td></td>
<td>Make sure each person’s role is unambiguous</td>
</tr>
<tr>
<td>Different cultures, points of view,</td>
<td>Build teamwork</td>
</tr>
<tr>
<td>perspectives or backgrounds</td>
<td>Conduct project kick-off/start-up workshops</td>
</tr>
<tr>
<td></td>
<td>Avoid unnecessary interactions</td>
</tr>
<tr>
<td>Misunderstandings</td>
<td>Plan and distribute clear communications</td>
</tr>
<tr>
<td></td>
<td>Ensure communications are distributed as needed</td>
</tr>
<tr>
<td>Mistrust or poor relationships</td>
<td>Hold face-to-face meetings periodically</td>
</tr>
</tbody>
</table>
Whose Idea is it Anyway?

- Is it yours, theirs or ours?
- Do you want/need credit for this?
- Are you included in the meeting when the decision to implement is made?
- Implementation requires answering:
  - How – how will this be implemented?
  - When – what’s the timing of the rollout?
  - Who – who will do it and who will be affected?
  - What – what is changing and what is not?
  - Why – why did we decide to do this?
  - Where – which locations are affected?
SECTION VI

BECOMING A TRUSTED ADVISOR
Preview of Key Points

- Becoming a Trusted Advisor
- Hierarchy of Consulting Goals
- Factors for Successful Consulting
Becoming a Trusted Advisor

- Be positive
- Follow through. Don’t make promises you can’t keep.
- Keep in touch with client: e-mail, call, in person
- Give them something: updates, news, developments
- Impress client with your knowledge *without embarrassing them over what they don’t know!*
Becoming a Trusted Advisor

1. Avoid being an order taker or just “a pair of hands”
   • Ask questions, interpret responses, manage expectations, follow-up with the client, anticipate future needs, stay in close contact

2. Build rapport with the client
   • Gather information, seek feedback, assess perceptions, challenge assumptions, handle complaints, show empathy

3. Ask Probing (open-ended), Clarifying (double-check), Process (opinion of interview dynamics), Empathetic (show you care), Meta (question about the interview process) questions. Apply 80/20 Rule.

4. Be careful when making assumptions
5. Treat customers with respect
6. Speak to their level of understanding
7. Apologize if necessary
8. Make a good first impression
Becoming a Trusted Advisor

1. Go first: Be the first to invest in the relationship
2. Illustrate, don’t tell
3. Listen for what’s different, not what’s familiar
4. Be sure your advice is being sought
5. Earn the right to offer advise
6. Keep asking
7. Say what you mean
8. When you need help, ask for it
9. Show an interest in the person
10. Use compliments, not flattery
11. Show appreciation

Source: The Trusted Advisor
Becoming a Trusted Advisor

1. Try to be helpful, not only right
2. Explain, help them understand
3. Three core skills:
   - Give Advice
   - Earn Trust
   - Build the Relationship
4. Be understanding:
   - Understand the situation
   - Understand how the client feels about it
   - Convince the client we understand both dimensions

Source: The Trusted Advisor
## Becoming a Trusted Advisor

### Characteristics of Relationship Levels

<table>
<thead>
<tr>
<th></th>
<th>Focus is on:</th>
<th>Energy spent on:</th>
<th>Client Receives:</th>
<th>Indicators of Success:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service-Based</td>
<td>Answers, expertise, input</td>
<td>Explaining</td>
<td>Information</td>
<td>Timely, High Quality</td>
</tr>
<tr>
<td>Needs-Based</td>
<td>Business Problem</td>
<td>Problem-Solving</td>
<td>Solutions</td>
<td>Problems Resolved</td>
</tr>
<tr>
<td>Relationship-Based</td>
<td>Client Organization</td>
<td>Providing Insights</td>
<td>Ideas</td>
<td>Repeat Business</td>
</tr>
<tr>
<td>Trust-Based</td>
<td>Client as Individual</td>
<td>Understanding the Client</td>
<td>Safe Haven for Hard Issues</td>
<td>Varied (e.g. creative pricing)</td>
</tr>
</tbody>
</table>

*Source: The Trusted Advisor*

Consultants act like Technicians

Consultants act like Advisors
### The Trust Process

<table>
<thead>
<tr>
<th>Step</th>
<th>Action Taken</th>
<th>What Client Feels</th>
<th>What Advisor Gains</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Engage</td>
<td>Attention becomes focused</td>
<td>“It may be worth talking to this person about…”</td>
<td>Earns the right to tell and hear truths</td>
</tr>
<tr>
<td>2. Listen</td>
<td>Ears bigger than mouth; acknowledge and affirm</td>
<td>“I am being both heard and understood…”</td>
<td>Earns the right to suggest a problem statement or definition</td>
</tr>
<tr>
<td>3. Frame</td>
<td>The root issue is stated clearly and openly</td>
<td>“Yes, that is exactly the problem here…”</td>
<td>Coalesces issues to move forward</td>
</tr>
<tr>
<td>4. Envision</td>
<td>A vision of an alternate reality is sketched out</td>
<td>“Could we really accomplish that?”</td>
<td>Concretizes vision; generates clarity of objectives</td>
</tr>
<tr>
<td>5. Commit</td>
<td>Steps are agreed upon; sense of commitment is renewed</td>
<td>“I agree, I’m with you. Let’s do it.”</td>
<td>Allows problem-resolution to begin</td>
</tr>
</tbody>
</table>

*Source: The Trusted Advisor*
Hierarchy of Consulting Purposes and Goals

Our Goal

Additional Goals

Traditional Purposes

1. Provide requested information
2. Provide solution to given problem
3. Conduct diagnosis that may redefine problem
4. Provide recommendations
5. Assist implementation
6. Build consensus and commitment
7. Facilitate client learning
8. Improve organizational effectiveness

Source: Consulting is more than giving advise – HBR.
What Do You Want To Be?

<table>
<thead>
<tr>
<th>Role</th>
<th>Nature of Relationship and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair of Hands Role</td>
<td>I don’t have the time (or interest). Do as I say. I’m in charge.</td>
</tr>
<tr>
<td>Expert Role</td>
<td>I don’t know as much as you do. I need help. You do it. You’re in charge. Careful not to focus only on technical side of problem or to skip getting the manager’s commitment.</td>
</tr>
<tr>
<td>Collaborative Role</td>
<td>Apply your skills to help manager solve problems. We work together.</td>
</tr>
</tbody>
</table>

Regardless of the role, don’t let management play an inactive role.
Key Factors to Successful Consulting

- Act collaboratively so management develops skills to solve similar problems in the future
- Manage the team based on composition and skills.
- Identify realistic conclusions that can be expected by the end of the engagement
- Develop a style that is based on familiarity with audit subjects, experience of audit personnel and sensitivity of audit subject
- Be flexible
Key Factors to Successful Consulting

- Leverage your knowledge and skills with their inside knowledge of process and people
- Discuss and agree upon data collection and analysis
- Expect (or foster) some disagreement as a source of new ideas
- Collaboration and negotiation are key
- Communicate, communicate, communicate
- Make sure communication is two-way
Key Factors to Successful Consulting

- Keep the client informed
- Keep the client involved
- Address the client’s low motivation. (Don’t wait until the report is issued!)
- Know the process, systems and people involved
- Be realistic and pragmatic
- Keep it simple and present it directly
- Be assertive
- Collaborate! (Avoid inclination to have power over the client.)
Key Factors to Successful Consulting

- Promote trust
- Share thoughts
- Explain rationale
- Provide honest opinions
- Act with integrity
- Display confidence
- Avoid arrogance
- Give honest/full answers (but if you can’t, explain why)
The Consulting Team

- Competence
- Clear and common goals
- Commitment to the goals
- Environment where all contribute and benefit
- Supportive structure
- Alignment of project goals to organizational goals
Motivating the Team

- Delegate activities based on people’s interests, goals and abilities
- Assign ownership of the work in the project plan
- Involve team members, and activity owners, in the analysis, cost estimation and activity duration to reinforce ownership and get buy-in
- Build teamwork so they care about each other and work effectively together
- Create an environment of fairness, respect and trust
- Provide timely feedback and praise
Motivating the Team

- Discuss and provide rewards and recognition at the individual and team levels in public and privately
- Show appreciation for good performance
- Give credit within and outside the team, verbally and in writing
- Celebrate successes after major milestones
- Remember that rewards don’t have to be monetary, yet they provide a nice surprise to those who deserve them
Motivating the Team

- Address demotivating factors promptly
- Deal with team problems promptly and fairly
- Ensure accountability is enforced when commitments are not met
- Encourage managed conflict
- Promote cooperation and collaboration
- Show team members you notice good and unsatisfactory performance
- Minimize unnecessary changes, eliminate unnecessary meetings, keep meetings as short as possible and eliminate reports no one reads
<table>
<thead>
<tr>
<th>Activity</th>
<th>Director</th>
<th>Manager</th>
<th>John</th>
<th>Carol</th>
<th>Sandy</th>
<th>Barry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td>I</td>
<td>R</td>
<td>C</td>
<td>A</td>
</tr>
<tr>
<td>2</td>
<td>A</td>
<td></td>
<td>R</td>
<td>I</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>A</td>
<td>C</td>
<td>C</td>
<td>I</td>
<td>R</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>A</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td></td>
<td>R</td>
</tr>
<tr>
<td>5</td>
<td>I</td>
<td>A</td>
<td></td>
<td></td>
<td>R</td>
<td></td>
</tr>
</tbody>
</table>
What Can You Offer?

- Compliance audit
- Financial audit
- Due diligence audit
- Operational audit
- Internal controls audit
- Performance review
- Cost analysis
- IT pre-implementation review
- Review quality of reports

Auditing

- Benchmarking
- Control Self Assessment (CSA)
- Training
- Develop Policies and Procedures
- Reengineering
- Process Design
- System Development
- Strategic Planning

Consulting
Where Can You Market Internal Audit?

- Internal Audit website
- Brochure
- E-mails to process owners
- Surveys
- Presentations
- Participation in company conferences and events
- Newsletters
- Employee bios
  - Name, title, experience, credentials, successes
How Can You Market Your Services?

- Name of service
- Description
  - What it is and what it involves
  - Benefits
- Best time to conduct service
- Typical results
- Recent success stories
- Staff Qualifications
- Contact information
- Testimonials
How Satisfied Are Your Clients?

- Post-project evaluation
- Discussion with clients
- Tracking repeat clients
- Tracking services provided and results
Keys For Successful Consulting

- Building strong relationships within the business
- Flawless execution every time
- Make yourself available for special projects and consulting
- Continued learning within internal audit
- Alignment with business objectives and needs
Thank You!

“Be well. Do good work. Keep in touch.”

--Garrison Keillor, Author and Radio Personality

kathleen3crawford@gmail.com

Please fill out the survey following the webinar!