

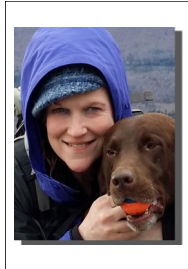
THE DISPATCH

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The QAIP: The Importance of Doing It Right

The Quality Assurance Improvement Program is a requirement for IA organizations wanting to declare their work 'in accordance with the Standards.' How does your organization measure up? *Julie Moran / IT Systems Senior Staff Auditor, Utica National Insurance Group / Internal Audit Unit*



Editors' Note: This is Part One of a two-part series on the implementation and performance of The IIA's Quality Assurance Improvement Program (QAIP). Part Two will further explore the performance of and reporting on the QAIP Internal Assessment and discuss "non-conformance" with The IIA's International Standards for the Professional Practice of Internal Auditing (Standards). Also included will be YOUR survey responses on how your organization performs the QAIP.

The Quality Assurance Improvement Program, or QAIP: the laudable ring of the name heralds multiple benefits for internal auditing including more careful and thorough processes, greater adherence to The IIA Standards and guidance, and better assurance and consulting services for customers. Continuous quality improvement is a guiding principle for professions and fields across the working spectrum, with the underlying credo: Quality is good, improved quality is better.

Ah, if only it were so simple.

As background, the QAIP has its beginning more than three decades ago, when The IIA developed the first quality assurance manual in 1984. In 1999 the "Vision of the Future" report revealed the profession's desire to strengthen The IIA's leadership role, stating: "All internal auditing organizations or service providers who wish to promote their work as being 'in accordance with the Standards' would be required to demonstrate compliance through periodic quality assurance reviews." The QAIP was a natural

extension of the need for a structure to monitor the adequacy of quality assurance reviews. Following this, the 1300 series of the Standards addressing the Quality Assurance and Improvement Program was included in the 2000 Professional Practice Framework. Although there existed a quality component in the Statements for Internal Auditing Standards, it was not made mandatory until 2002.

Today's QAIP program exhibits extraordinary thoroughness and sophistication, and ours is one of the most quality-committed professions in the world.

"Quality assurance plays a pivotal role in demonstrating compliance to the Standards," says IIA President and CEO Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA. "Indeed, the profession's future viability requires ensuring the quality of internal auditing."

The QAIP is supported by extensive practice guidance, advisories, and the Quality Assess-

ment Manual for the Internal Audit Activity (Quality Manual). However — precisely *because* of that thoroughness — implementation of the QAIP can easily be constrained by available resources and scale economies for organizations of varying sizes.

Despite the robust guidance available, roadblocks to implementation of the QAIP certainly exist. Commitment to its implementation depends heavily on the Audit Committee and senior manager — the cultural "tone at the top" stuff — and worse, the implementation process is vulnerable to bias or organizational politics.

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The QAIP

COMING UP! OCTOBER CHAPTER MEETING!

Date: Wednesday, October 18, 2017
Time: 8:45 – 9:00 a.m. — Registration /Continental Breakfast
 9:00 – 11:00 a.m. — Program
 11:00 a.m. – 12:15 p.m. — Sessions 1 - 3
 12:15 – 1:00 p.m. — Lunch Break
 1:00 – 3:15 p.m. — Sessions 4 - 5
 3:15 – 3:45 p.m. — Tour of Forensic Facility (optional)
Location: Utica College, Carbone Family Auditorium in the Economic Crime and Justice Studies Building (ECJS).
[1600 Burrstone Road, Utica, NY 13502-4892](http://www.uticacollege.edu)
 315.792.3006

Directions: SEE DETAILED DIRECTIONS INSIDE, PAGE 6.
Cost and Payment: IIA, ISACA, ACFE Members, \$85; Non-members, \$95; Students and Retirees: \$25 (free for students not attending lunch)
Register for the event online! <http://www.eiseverywhere.com/283277>
RSVP by October 12th. Cancellation after October 12th incurs the cost.
Meal: Buffet Lunch
CPEs (CIA and CPA): 6 CPEs (category: Auditing). CNY IIA sponsor ID number for NYS is 002212. CPE requirements vary from state to state – contact your state's board for information concerning your state's specific requirements.



The program details ...

Session 1 – Follow the Money
 Leslie Corbo, Bernie Hyman, Sue Lynch, and Don Rebovich, Professors Utica College
Follow the Money is a hypothetical scenario on terrorist financing that demonstrates how fraud and financial crime investigation, cybersecurity and traditional criminal justice skills link together in investigating and apprehending those responsible for supplying funding to support violent attacks by terrorists.

Session 2 – Locating Hidden Assets
 Jim Conroy, Supervising Detective
 Ocean County Prosecutor's Office, Toms River, NJ
 Jim will differentiate between a financial and behavioral profile and

(continued on Page 2)



Does your company have revenue and leases? Yeah, you do ... that's why September's meeting was critically relevant to CNY-IIA members. Attendees heard and received everything needed to be ready for these new accounting rules on Revenue Recognition and Leasing standards. The session provided knowledge and tools essential to auditing for the new requirements such as control framework updates needed in our organizations, as well as added control enhancements to strengthen the integrity of financial reporting and minimize the risks in evaluating revenue and leases.

The coursework and presentation was given by Jamie Keiser, CPA, and Steven Morse, CPA, CGMA. A partner and Financial Institutions

September 2017 Meeting Wrap-up:

Accounting Standards Updates — Revenue Recognition, Leases (ASU 2014-09)

Julie Moran / IT Systems Senior Staff Auditor, Utica National Insurance Group / Internal Audit Unit

Team Leader of The Bonadio Group, Keiser is a seasoned expert in financial accounting and reporting for financial institutions and has practiced in the financial sector for more than 15 years. Morse, a principal with The Bonadio Group, leads the firm's Higher Education Internal Audit Team, which provides an array of internal audit services specifically designed to improve compliance, internal controls, and efficiency for colleges and universities.

Revenue Recognition (ASU 2014-09)

As the presenters explained it, the new guidelines for revenue recognition are more legal concepts and definitions than accounting entries. The guidance's objective: To recognize revenue depicting the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or ser-

vices. Pretty basic stuff. But beyond that, there is a discrete five-step process that includes very specific definitions critical in auditing against the new standard:

- Step 1 - Identify the contract;**
- Step 2 - Identify performance**

obligations;

- Step 3 - Determine the transaction price;**
- Step 4 - Allocate the transaction price; and**
- Step 5 - Recognize revenue when, or as, the entity satisfies a performance obligation.**

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Steven Morse, CPA, CGMA, and Jamie Keiser, CPA

OCTOBER MEETING: ECONOMIC CRIME & CYBERSECURITY (CONT.)

how these profiles are used to aid in a financial investigation. Special emphasis will be placed upon identifying key financial sources and assets, identifying targets of financial crimes, and the relevant statutes used in prosecution.

Session 3 – Understanding Today's Fraud Risks and Prevention Strategies

Tim W. Ball, Principal

The Bonadio Group, CPAs and Consultants

This presentation will cover the latest statistics about fraud schemes in today's business world, as well as provide helpful tips in identifying the red flags of fraud

and implementing fraud prevention strategies. Tim will include case studies and discuss some of the latest investigations he's worked on, using both the fraud scheme itself and the subsequent investigation to give insight into how fraud can occur, how it's discovered, and how it's investigated.

Session 4 – The Future of Ransomware

Nicole Lent, Cybersecurity & Fraud Risk Analyst II
NBT Bank

Tony Martino, Director, Northeast Cybersecurity and Forensic Center

Nicole and Tony will explore what ransomware

threats look like today, where they are headed, and what individuals and businesses can do to help protect themselves against these threats.

Session 5 – Panel Discussion

Len Chinski, Director of Audit
NBT Bank

Len will moderate a discussion with the day's speakers while also taking questions from the audience on current events and topics in economic crime investigation and cybersecurity.

OCTOBER MEETING: SPEAKER BIOGRAPHIES ...

Leslie Corbo, M.S., Assistant Professor - Cybersecurity.

Leslie is an Assistant Professor of Cybersecurity in both the BS and MS Cybersecurity programs at Utica College. Professor Corbo served as a Senior Information Security Program Manager for PhishMe, Inc., providing services to fortune 500 companies in educating their workforce in IT-related areas. Professor Corbo has worked with renowned universities collecting data, designing and conducting studies involving employee behavior towards phishing emails. Prior to joining PhishMe, she worked as a cyber security analyst, an IT-security analyst, and an Information System Security Manager on Department of Defense and Department of Homeland Security Science and Technology efforts. Her areas of research include phishing emails, sentiment and behavior analysis, and the Internet of Things.

Bernie Hyman, J.D., Professor of Practice - Economic Crime.

Professor Hyman is an Assistant District Attorney with the Oneida County District Attorney Office. Professor Hyman was instrumental in fostering the Memorandum of Understanding between Utica College and the Oneida County D.A.'s Office and supervises the District Attorney Economic Crime Investigation Intern Program. He has successfully prosecuted numerous felony cases involving investment fraud, elder abuse, embezzlement, larceny, identity theft, and crimes against revenue.

Suzanne Lynch, M.S., Professor of Practice - Economic Crime.

Professor Lynch currently serves as Director of Criminal Justice Corporate and Professional Programs for Utica College. She served as the Director of the Economic Crime Management Graduate Program for Utica College for four years, from August, 2011 to August, 2015. Prof. Lynch, has extensive experience in risk analysis, fraud control development and investigations in the payments industry. She has held fraud management positions at MasterCard Worldwide, Goldman Sachs and Comerica Bank. Her outreach efforts have drawn in entities like the Association of Certified Anti-Money Laundering Specialists (ACAMS), the U.S. Marshals Service and the Army National Guard to invest professional effort in aligning respective personnel with tailored certificate programs.

Don Rebovich, Ph.D., Professor of Criminal Justice.

Dr. Rebovich is Coordinator of Utica College's Fraud and Financial Crime Investigation (FFCI) program and Executive Director of Utica College's Center for Identity Management and Infor-



Suzanne Lynch, M.S., Professor of Practice - Economic Crime.

mation Protection (CIMIP). Dr. Rebovich's background includes research in identity crime characteristics, economic crime victimization, white collar crime prosecution, protected health information, human trafficking and multijurisdictional drug task force development. Dr. Rebovich is co-author of *Identity Fraud Trends and Patterns: Building a Data-Based Foundation for Proactive Enforcement*, a national study of U.S. Secret Service identity theft cases covering a six-year period. He is the author of *Dangerous Ground: The World of Hazardous Waste Crime*, which presented the results of the first empirical study of environmental crime and its control in the United States.

(continued)

OCTOBER MEETING—SPEAKER BIOGRAPHIES (CONT.)

James Conroy, CFE, AHFI, Supervising Detective with the Ocean County Prosecutor's Office, Toms River, NJ. Jim is assigned to the Special Investigations Unit - Economic Crimes Bureau, and also works internal affairs, organized crime and corruption investigations. Prior to this, he was a Special Agent/ Criminal Investigator assigned to working on an organized crime task force for five years. He has been in law enforcement for approximately 20 years.

Jim holds a master's degree in Criminal Justice from the University of Wisconsin-Platteville, and has been teaching online and traditional style for the past 14 years. He is also certified as a New Jersey state police instructor of criminal investigation, patrol tactics and firearms, and serves as an expert witness on fraud related matters. He holds the CFE and AHFI designations. In addition, he is currently completing the requirements for his doctoral degree in Criminal Justice.



James Conroy, CFE, AHFI, Supervising Detective, Ocean County Prosecutor's Office

Leonard Chinski, CIA, CFIRS, CRMA , Senior Vice President and Director of Audit, NBT Bank (NBT). Len oversees the Internal Audit function of NBT, which is responsible for assessing the internal control environment and risk management activities of all key areas of the organization. Also, Len has oversight responsibility for the Loan Review function at NBT, which is responsible for monitoring the safety and soundness of the bank's assets through the performance of detailed independent reviews of the its lending portfolios.

Prior to NBT, Len worked for Janney Montgomery Scott, LLC, where he served as Vice President and Fixed Income Capital Markets and Compliance Officer. Prior to that he was with M&T Bank for over 15 years, where he began as a Staff Auditor and rose to become Administrative Vice President and Assistant General Auditor. He also held a senior compliance role with M&T Securities, Inc.

Len earned his Bachelor of Science degree in accounting (cum laude) from Canisius College. He is a Certified Internal Auditor, a Certified Fiduciary and Investment Risk Specialist, and a Certified Risk Management Assurance Specialist.



Leonard Chinski, CIA, CFIRS, CRMA , Senior Vice President and Director of Audit, NBT Bank



Tim Ball, CFE, Principal, The Bonadio Group, CPAs and Consultants. Tim is a Principal in the Fraud and Forensic Accounting and Litigation Support Team for The Bonadio Group. He joined Bonadio in 2006. In his tenure with Bonadio, Tim has provided forensic accounting, auditing and fraud investigations services to a wide variety of organizations, including public and private corporations in several industries. In addition, Tim has provided operational consulting and quality control auditing services for several county governments in New York State, and specializes in mitigating risk and strengthening internal controls within these entities.

Tim Ball, CFE, Principal, The Bonadio Group, CPAs and Consultants.

Tony Martino is the Director of the Northeast Cybersecurity and Forensic Center. Tony is a 20-year veteran of the Utica, N.Y. Police Department, and is an expert in cybersecurity, computer crime investigation, and digital forensics. He is a 9-year member of the United States Secret Service Electronic Crime Task Force and co-founder of the Central New York Internet Crimes Against Children Task Force. Anthony received the Wallie Howard, Jr. Award for Excellence in Law Enforcement from the U.S. Attorney's Office. In addition, he holds a Bachelor's degree from SUNY Geneseo and a Master's degree in economic crime management from Utica College, where he researched wireless data network security.

Nicole Lent is Cybersecurity and Fraud Risk Analyst II for NBT Bank. Nicole joined NBT in 2013 as an Information Security Analyst. She earned her Master's degree in cybersecurity with a focus on cyber Intelligence from Utica College. Nicole is responsible for the debit card fraud monitoring program and has stopped over five million dollars in attempted debit card fraud since taking over the program in 2015. Nicole is responsible for the enterprise-wide training and education program with a specialty in Social Engineering. Nicole resides in Waterville, NY with her family, where she is involved in her local PTA.

Tower Hall, Utica College



ATTENTION STUDENTS!

Take advantage of new lower-cost membership to the IIA!

In an effort to further support the future of internal audit, the IIA has lowered the student membership rate to just \$40 from the original \$70.

Spread the word! Many students may not have considered a career in internal auditing, or even know what it is. But if you or a friend is looking for a real opportunity, consider this:

- Risk, fraud, and organizational effectiveness are just a few of the areas internal auditors get involved in.
- Employers are actively seeking out students with exposure to internal auditing.
- Advancement opportunities are truly limitless in this growing profession.
- Work-life balance, higher starting salaries, and travel opportunities are just a few of the possible perks.

Joining The IIA helps you access this world of opportunity as you start building a network of relationships and a base of knowledge that can help you build a solid future. For less money than you might spend on a night out, you can connect with an organization full of future employers and an arsenal of unparalleled career information.

Click on this link for more information:

<https://na.theiia.org/membership/Pages/IndividualMembership.aspx>

BEST PRACTICES WITH DATA ANALYTICS, PART II: AUDIT FIELDWORK

Karen Altman, CIA / Senior Auditor, Syracuse University, Office of Audit & Management Advisory Services

As discussed last month: data analytics can be a critical tool that influences how we conduct audits and allows us to provide greater business intelligence and guidance to clients. Below are five quick Excel tools you should consider when running your analytics during fieldwork:

Pivot Tables: With pivot tables, you can easily summarize data by a select field with totals added as an additional attribute. This is helpful in first understanding the population of data you're looking at before you dive into the details.

Filters: Filters are an easy one-click tool that help you dive into the details of a population. Want to see transactions over \$5,000? You can filter the amount field to do just that. This is extremely helpful when judgmentally selecting your sample or simply finding immediate outliers.

VLOOKUP: VLOOKUP is a formula that allows you to compare two tables together based on a single data field to identify matches and mismatches. This is an easy method to reconcile any two files you may have to ensure completeness and accuracy. This can also be used to bring in data from one ta-

ble to another to help with the analytics. In many cases, a client may provide multiple tables, or a legend table of some sort for the data. Using VLOOKUP, you can match the two tables by a common field/denominator, and then bring in any data from the legend or secondary table that you need.

CONCATENATE / Text to Columns: CONCATENATE is a formula used to combine fields together, while text to columns is used to separate data fields. When trying to analyze the data, you may realize it's not necessarily in the format you want to allow for the analytics. For example, if you wanted to compare an employee's credit card charges to a list of their days off, you would want to compare two data fields – employee ID and the dates of the transactions. In using CONCATENATE, you could combine the two fields from the two tables and then use VLOOKUP to identify matches. Text to columns is also a useful tool to use when you need to separate fields, such as employee names or ledger accounts, to allow for a cleaner analytic.

Conditional Formatting: Conditional formatting is a tool to use



when you'd like to highlight fields that meet certain criteria for review. This can also be used for identifying duplicates in fields. If the duplicates you are looking to identify are based on several fields, simply use the CONCATENATE formula noted above to combine the fields and then run the duplicate formatting.

With the tools listed above, you can easily use Excel to run some powerful analytics. While a detailed tutorial is not provided above, using the help button in Excel provides step by step guidance. Beyond the help function, below are a few websites that are helpful in understanding the analytics available in Excel as well:

www.exceluser.com
www.mrexcel.com
www.ablebits.com
www.exceljet.net
www.professor-excel.com
www.mbaexcel.com
www.excel-university.com
www.excelFunctions.net
www.quora.com

THE TIME IS NOW...TO START THINKING ABOUT RETIREMENT

W. Valen McDaniel CIA, CFSA, CFE, CRP CNY IIA / Past President / valen3000@aol.com

Stop and read this. If you are approaching retirement in say five or six years, I have a few ideas you may wish to consider. This might just be important.

For many people, their jobs take up the bulk of their waking lives. They wake in the morning and immediately start thinking about the tasks ahead of them scheduled for the day. During the previous night, their minds were subconsciously attempting to find solutions for events that had transpired the day or two prior. If they stop for breakfast, they continue to plan out their day's tasks, and then continue the schedule rehearsal during their commute to work.

And then, of course, they settle into their routine on the job. They take a short break for lunch on most days only to return for the afternoon crunch to finish what tasks were presented. Then, they commute home. During this commute, they are resolving to finish whatever it was that did not get completed during the day.

Finally, they reach the solitude of their castle, and depending on their home responsibilities, either relax or tackle these new tasks like fixing dinner or helping children with school work or repairing something that broke. They then collapse into bed and seek rest. This routine happens at least five days a week and sometimes on Saturday as well.

Mostly men, but women as well, measure their success by their job. Suddenly, upon retirement, they find themselves at a loss and feel less important. They no longer have all those responsibilities. They no longer are faced with decisions to make or problems to solve.

They are no longer "needed." Yes, they had been looking forward to the day when they could relax and do as they pleased whenever they wanted. But they hadn't thought it through. They had not properly planned what they were going to do after they left employment.

It is essential to every human being to be active until the day we venture to the other side of the grass. You will go stark raving mad sitting around doing nothing. Sure, there were lots of things you wanted to do while you were working but never had the available time. Make a list of your hobbies (stamp or coin collecting, photography, restoring automobiles, woodworking, etc.). If you do not currently have any hobbies, start one or two today. Have something to go to when you retire. It should be something you are passionate about, or have developed and enjoy.

Next, make a list of all your skill sets that you have acquired over the years. Rate each of them weak, medium, or strong. Think of all the different volunteer work where you could apply those talents (pet care at rescue kennels, assistance with chamber of commerce new business start-ups, Red Cross, YMCA, Scouting, Meals on Wheels, etc.). Perhaps you could take a position as an auxiliary law enforcement officer or a consultant for a security firm.

If you want to travel around the world for free, consider applying your skills with USAID (United States Agency for International Development) or sub-groups such as FSVC (Financial Services Volunteer Corps). Generally, they will not send you to typical touristy places such as Paris, Rome, or London, but you will get to



visit many places of different cultures and climates. This type of work provides you with a whole new global perspective, and you get to help others around the world.

Remember, do not wait until you have already retired to start thinking about how to stay active in retirement. You need challenges and things to look forward to as the days turn into weeks, and weeks turn into months, and months into years. See if you can't line up something now before you retire.

THE QUALIFICATION IN INTERNAL AUDIT LEADERSHIP (QIAL)

Today, growth and change in the internal auditing field is demanding a new type of leader – one who drives a high-performing audit team while delivering value by consistently addressing stakeholder needs, top-down risks, and expectations of an evolving marketplace. The IIA has developed the Qualification in Internal Audit Leadership (QIAL) to support members who undertake this journey.



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That said, The IIA currently believes that problems it's seen with the QAIP mostly have to do with the challenge of conformance.

According to the 2015 Common Body of Knowledge® (CBOK®) Stakeholder Study, while there is widespread support for QAIPs, only 34 percent of Chief Audit Executives (CAEs) participating in the survey stated that their internal audit departments fully conformed to Standard 1300, which requires that CAEs develop and maintain QAIPs covering all aspects of internal audit activity. Perhaps even more alarming, 29 percent of CAEs surveyed reported that QAIP was nonexistent or ad hoc.

"Clearly, this is a huge concern," Chambers told *The Dispatch*. "Internal audit's failure to enforce its own quality standards could have significant consequences. Consistently applying and abiding by a set of professional standards is key to ensuring internal audit's role of trusted advisor."

It Begins and Ends with the CAE

Keeping the QAIP purposeful and providing measurable benefits should coincide with participation and open communication throughout the organization and depends heavily on the full support of the internal audit staff on which internal audit quality depends. For that to happen, the QAIP must begin and end with the Chief Audit Executive. Without that person steering the ship, the QAIP will be rudderless and directionless.

According to Standard 1300: Quality Assurance and Improvement Program, "The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity." The practice guidance goes further, stating that the CAE is accountable for implementing and overseeing processes to provide reasonable assurance to the various stakeholders that the internal audit activity:

- Performs in accordance with the internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards;
- Operates in an effective and efficient manner; and
- Is perceived by those stakeholders as adding value and improving the organization's operations.

It is the CAE's responsibility to ensure these three things happen by establishing a results reporting mechanism to ensure that QAIP reviews reflect their credibility and objectivity. Ideally, those conducting both ongoing and periodic QAIP reviews should report to the CAE while performing the reviews and should communicate their results directly to the CAE.

The importance of having both credibility and objectivity cannot be overstated. The devil's at work here when you have one and not the other. Having objectivity alone does not ensure thoroughness or that the reviewer has the experience or the mandated full

knowledge of the International Professional Practices Framework (IPPF). The reverse is worse. A "credible" looking report that lacks objectivity owing to organizational influences and/or lack of proper experience or training of the reviewer can decimate staff morale or mislead senior management — or even the board.

It's Internal And External

According to Standard 1310: Requirements of the Quality Assurance and Improvement Program, "The quality assurance and improvement program must include both internal and external assessments." There are, in turn, two types of internal assessments:

- Ongoing monitoring of the performance of the activity by internal audit management; and

- Periodic self-assessments by other persons within the organization with sufficient knowledge of internal audit practices, which requires at least an understanding of all elements of the IPPF.

Both ongoing monitoring and periodic self-assessments are required components of the QAIP. But the periodic self-assessment is perhaps the trickiest element. For example, who is to perform it, and how? According to Practice Guide 1301: Periodic Self-Assessments, periodic self-assessments should be broad in scope and include evaluations of:

- Conformance with the internal audit charter, The IIA's Definition of Internal Auditing, Code of Ethics, and the Standards;
- Quality of the audit work, including adherence to the internal audit methodology for the selection of engagements to become part of the audit plan;
- The nature and quality of supervision;
- The internal audit activity "infrastructure" that supports the activity, including the policies, procedures, organizational structure,

budget and available resources, and the quality and practicality of the audit platform and analytical tools available;

- The nature, ways, and degree to which the internal audit function adds value to the organization; and
- The achievement of performance standards/indicators.

Clearly, the internal assessment professional performing the QAIP should possess not only knowledge of The IIA Standards and the IPPF, but also extraordinary general business management acumen. Further, guidance suggests that different internal QAIP reviewers be rotated to the tasks from year to year in order to maximize potential insights, bring fresh ideas and wisdom, and avoid political biases.

The QAIP

Training and the right leadership are key ...

How many organizations have sufficient scale to offer this kind of independent internal review? Out of the gate, likely not many. That's why training for the QAIP reviewer is critical. For example, The IIA offers the two-day *Building a Sustainable Quality Program* course that helps the QAIP apprentice:

- Learn how to apply The IIA's IPPF quality standards to establish an effective QAIP within their internal audit practice;
- Gain experience with the quality assessment process model and related tools contained in The IIA's Quality Manual to identify areas of focus;
- Practice building the two key components of an effective QAIP - ongoing and periodic assessments;
- Experience developing metrics and designing reports of results of their internal audit's QAIP; and

"Despite the robust guidance available, roadblocks to implementing the QAIP certainly exist. Commitment to its implementation depends heavily on the Audit Committee and senior manager — the cultural "tone at the top" stuff — and worse, the implementation process is vulnerable to bias or organizational politics."

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JUMP-STARTING THE YEAR FOR CAP POINTS

The Chapter Achievement Program (CAP) is The IIA's way of recognizing excellence at the chapter level. Your IIA CNY Chapter has reached the highest rank in this program repeatedly, including two consecutive years as a Ruby Chapter.

CAP Chairperson Dan Zeppetello reports that as we close out the quiet portion of the Chapter year, we continue our good start with 312 CAP Points as of August 31, 2017.

Become a CAP Superstar!!!

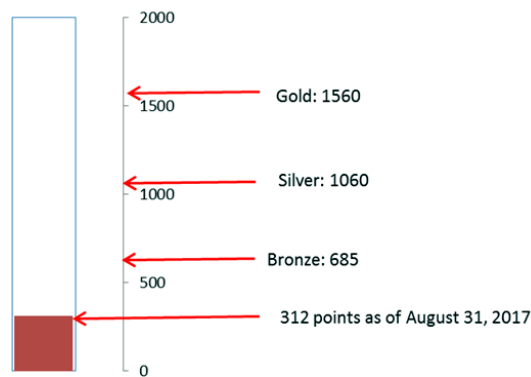
If you have not been a CAP Superstar yet, this could be your year. If you were a CAP Superstar before, you can be one again when you earn CAP points for member activities. Contact Dan Zeppetello about:

- Non-fee based, internal audit related presentations or training sessions. Send Dan the date, topic covered, and number of 50-minute segments delivered.
- Submission of articles on internal audit topics to certain publications. The Chapter gains points for the submission, even if the article is not published. Contact Dan for the details about which articles qualify.
- Participation in IIA headquarters-sponsored Leadership Webinars. Send Dan the webinar title and date.

Reach Dan at daniel.zeppetello@nationalgrid.com.



IIA CNY CAP Dashboard



September 2017 Meeting Wrap-up: Accounting Standards Updates — Revenue Recognition, Leases (Cont.)

Morse and Keiser described newly required disclosures in detail, along with recommendations for updating financial reporting internal controls to evaluate revenue going forward.

Attendees also learned the long road to getting to this new standard, along with effective dates, transition considerations, and ways to consider the organizational effects and related internal audit considerations.

Why the change? In 2002, a joint project on revenue recognition was added to FASB and IASB agendas with the goal of unifying guidance and filling in gaps and questions. After the December 2008 discussion paper and exposure drafts in subsequent years, the initiative focused on recognizing revenue as assets transferred and/or performance obligations satisfied based on contracts. More than 1,300 comment letters were received. Then on May 28, 2014, the FASB and the IASB issued a converged standard with ASU 2014-09, *Revenue from Contracts with Customers*.

What's the current state of implementation? Not all that robust, yet. Morse reviewed a KPMG surveyed of nearly 400 financial executives. The results?

- Only 29% said their companies have a clear plan to implement
- 55% indicated they are still assessing effects
- 27% indicated they have taken no action
- The surveyors concluded that a better effort was needed to get the word out about these rather

complex new requirements. Morse highly recommended AICPA's *Center for Plain English Accounting Revenue Recognition Series*, and other Transition Resource Group materials are available from the AICPA.

The standard requires performing a "retrospective presentation to all periods" to recognize the cumulative effect to the opening retained earnings balance at the date of initial application. In other words, the longer you wait, the more accounting restatement labor will be needed. If "cumulative effect" is selected, additional disclosures about the financial statement line items affected will be needed. Recognizing the cumulative effect of the change means making recalculations on an "as-if" basis.

Why do these changes matter? FASB's ASC 606 eliminates the transaction and industry-specific revenue recognition:

- It removes hundreds of pieces of industry-specific GAAP literature on revenue recognition.
- Now, there's no longer a question of which piece of revenue recognition guidance within GAAP is applicable; instead, the key question is merely how to apply the new standard.
- It sounds simple — but applying the new standard will involve LOTS of judgment.

The scope of the new revenue recognition rules are limited to revenue from contracts with customers, defined as "a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration." The requirements apply to all contracts with customers, except:

- Leases

DIRECTIONS: UTICA COLLEGE, OCTOBER 18 CHAPTER SEMINAR:

Economic Crime & Justice Studies Building

Carbone Auditorium, 1600 Burrstone Rd.

Utica, NY 13502-4892

Use Parking Lot A off Burrstone Road - Signs will be posted.

[Driving Directions \(Or Just Click Here\):](#)

From the East / West

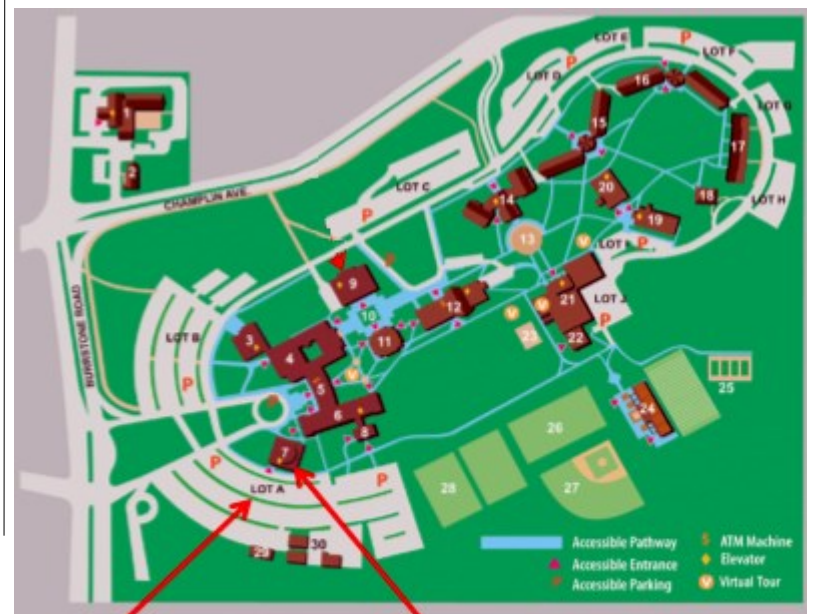
- Travel the New York State Thruway I-90 to Exit 31 (Utica).
- Follow the signs carefully to Route 12 South and take the Burrstone Road/Utica College exit. The exit ramp ends at a stop light; take a left onto Burrstone Road West and look for the sign marking the entrance to Utica College (on the right).

From the South

- Take Route 12 North to Utica. Exit at Burrstone Road/Utica College. Follow exit ramp to Burrstone Road West and look for the sign marking the entrance to Utica College (on the right).

From the North

- Take Route 12 South to Utica. Exit at Burrstone Road/Utica College. The exit ramp ends at a stop light; take a left onto Burrstone Road West and look for the sign marking the entrance to Utica College (on the right).



Parking Lot A Economic Crime and Justice Studies Building

- Insurance contracts
- Financial instruments
- Guarantees

Leases (ASU 2016-02)

Jamie Keiser provided a background on the new guidance for leases, a multi-year joint project of the FASB and IASB, citing the discrete implementation dates. The objective of the standard is to eliminate the older, outdated concept of an operating lease and bring most leases onto the balance sheet. She explained in detail:

- Types of assets used by companies subject to contracts that may meet the new lease definition;
- The entire population of lease arrangements;
- The analysis of lease terms and the categorization by lease type;
- The value for each lease, as defined by the new standard;
- The transition requirements as defined by the guidance, including required disclosures and financial impacts of implementation; and
- Updating internal controls over financial reporting to evaluate leases going for-

ward.

The final version of the standard was issued in February 2016, with public business entities required to be in compliance for years beginning after December 15, 2018. All other entities must be in compliance for years beginning after December 15, 2019. Most leases will result in balance sheet changes to:

- Right-of-use (ROU) assets
- Lease obligations
- Exception applicable to leases having a 12 months or less duration.

The effects of the new provisions primarily affect lessees, with lessor accounting remaining mostly unchanged. Keiser discussed the types of business activities the new standards do NOT apply to:

- Intangible assets
- Mineral, oil, and natural gas exploration
- Biological assets (e.g., timber)

(continued)

THE QAIP ...

- Assess the readiness of their internal audit activity for an external quality assessment.

Even with the proper background, experience, knowledge, and training, The IIA acknowledges that relying on internal reviews isn't enough, which is why the five year external assessment is also required by our profession. According to Standard 1312: External Assessments, "External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization."

Once again, the CAE plays a central role, mandated to advise the board of:

- The form and frequency of external assessment; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

The CAE brings to the process vital professional judgment to determine whether the external assessor or assessment team shows sufficient competence and independence to be qualified.

Fortunately, there's some flexibility

There is some flexibility in how external assessments are to be performed. The reviews can be either a full external assessment or a self-assessment with independent external validation. Either way, the assessor or assessment team must demonstrate competence in two areas: 1) the professional practice of internal auditing, and 2) the external assessment process. Practice guidance advises that competence can be demonstrated through a mixture of experience and theoretical learning, while requisite experience should be gained from working with organizations of similar size, complexity, sector, or industry. Furthermore, technical skills are more valuable than less relevant experience. For assessment teams, not all members of the team need to have all of these attributes; it's the team as a whole that is

considered qualified.

Moreover, the independence of the assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs. External QAIP reviews may be performed by a team totally independent of the organization, for example, from The IIA or consulting organizations having knowledge of requirements and standards for audit performance. For smaller organizations, a self-assessment can suffice if that assessment is validated by an independent reviewer. Or a peer review team, comprised of members from at

least three different organizations, can be assembled for the external assessment.

Regardless of who performs the external assessment, required qualifications are identical for all three types of assessment teams. An external review team should also include members with information technology expertise, relevant industry experience, and expertise in other specialized disciplines (such as accounting, taxation, or environmental affairs, as necessary).

The independent assessment report must differ from other types of external reviews in certain respects. For example, it should express, if relevant to the overall opinion, the degree of partial conformance with the Definition of Internal Auditing, the Code of Ethics, and/or individual *Standards*. The internal audit activity conforms to the *Standards* when it achieves the overall outcomes prescribed in the Definition of Internal Auditing, Code of Ethics, and *Standards*.

The results of the QAIP include the results of both internal and external assessments. As appropriate, the assessments should include recommendations *for improvement*.

###

The importance of having both credibility and objectivity cannot be overstated. The devil's at work here when you have one and not the other. Having objectivity alone does not ensure thoroughness or that the reviewer has the experience or the mandated full knowledge of the IPPF. The reverse is worse. A "credible" looking report that lacks objectivity owing to organizational influences and/or lack of proper experience or training of the reviewer can decimate staff morale or mislead senior management — or even the board.

September 2017 Meeting Wrap-up: Accounting Standards Updates — Revenue Recognition, Leases (Cont.)

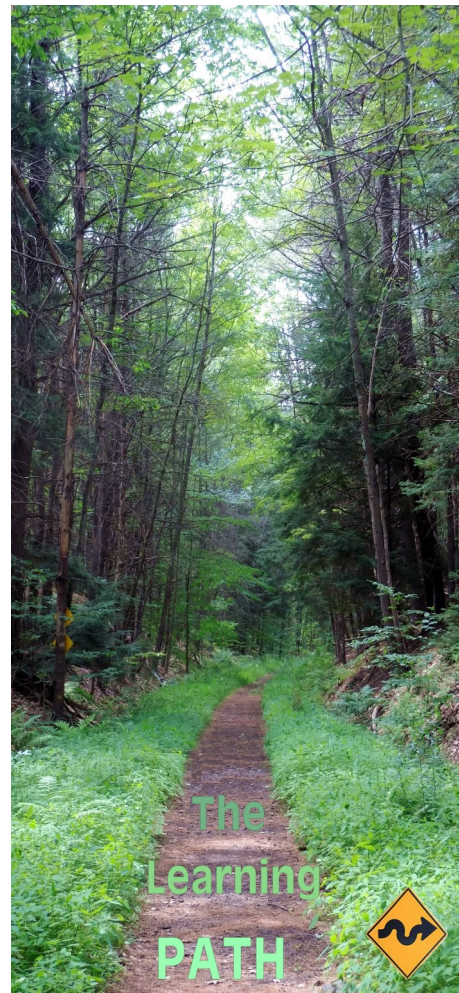
- Inventory
- Assets under construction

Missed the seminar and need more details? ASU 2014-09 is available for download from the FASB [HERE](#), and information on ASU 2016-02 is available [HERE](#). Keiser and Morse encourage you to reach out to them at The Bonadio Group.

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If self-study materials are not for you but you can't travel to a class, try a Virtual Seminar -- a series of live, facilitator-led training sessions that allows you to participate with others via a virtual classroom. The IIA is offering the following sessions:

Part 1: November 27- December 15, 2017, Monday/Wednesday/Friday, 6:00 - 7:50 PM ET. [Click here for more details or to register.](#)

Part 2: October 2-18, 2017, Monday/Wednesday/Friday, 6:00 - 8:05 PM ET. [Click here for more details or to register.](#)

Part 3: November 1 - 27, 2017, Monday/Wednesday/Friday, 6:00 - 8:15 PM ET. [Click here for more details or to register.](#)

For more details, contact: Customer Service, (407) 937-1111

IIA UPCOMING WEBINARS ...

Visit The IIA's main Website (theiia.org) for more information on these webinars:

17-October-2017

Members-only Webinar: *Is Your Team Ready to Audit Culture.*

21-November-2017

Members-only Webinar: *Technology: Auditing Data*

19-December-2017

Members-only Webinar: *2017 Year-end Legislative Review with Arnold & Porter Kaye Scholer*

On-demand 24/7 webinar playback is also available for members only, with access to The IIA's extensive library of archived webinars.

Note: On-demand webinar playback does not qualify for NASBA CPEs.



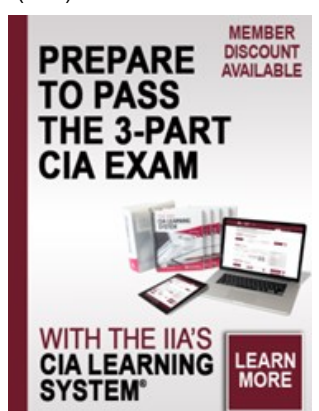
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THE QIAL (CONT.)

The QIAL program focuses on internal audit leadership skills, organizational abilities, ethics, and innovation and change. QIAL-qualification skills are evaluated in a challenging three-step process:

- Candidates must critically analyze complex information in three separate case studies and produce written responses for each providing insight for a senior-level audience.
- They must prepare and present to a senior-level panel, followed by a rigorous question-and-answer session.
- The final step is a 90-minute interview that focuses on personal and professional experience.

For more information, visit [here](#).



“Risk Culture: An Old and New Role for Internal Audit,” November 15, 2017 – watch for more information in the next *Dispatch* and on the [CNY-IIA website!](#)

Please add CentralNYIIA@gmail.com to your contacts to ensure you receive future emails from the Central New York IIA!

The Institute of Internal Auditors
Central New York Chapter

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