Message from the Chairman

As you will see from this newsletter 2016 will be the beginning of an exciting period for the IIC as we implement new projects that will provide added services to our members. Some of these projects are discussed in this newsletter and others will be introduced during the year.

First, you will note that the IIC is opening our certification program and other resources. For certification we will offer the CICA and CCS certification to Accounting and IT professors at all colleges and universities in the U.S., and expand this world-wide in 2017. As part of this project we will also seek the establishment of Student Chapters to introduce internal control concepts to students. As part of this project I will co-author a textbook on Auditing Internal Controls that can be used in a dedicated course on internal controls. The textbook will be used as the basis of a syllabus for the course as well as a Study Guide for the CICA exam. A similar project will be developed for non auditors in conjunction with the CCS exam. Also, as part of the exam certification program and certification via curriculum program we will establish an Associate member program. Additional details on the above and other membership categories as discussed below.

Second, as part of the newsletter, we will establish at least one article whose purpose is to provide education to members in internal controls. In the newsletter you will notice an article from a password security vendor that provides a good source of information on password controls. As part of this feature, I will also author "help" articles that can assist members in areas of internal controls.
Many members have requested that the IIC provide members the opportunity to obtain a lapel pin to represent that they are certified members of the IIC. With the design of the new logo and revised seal the Board has approved a project to design and provide all members in good standing, as well as new members, a lapel pin. It was agreed that the pins will be issued ONLY to certified members and replicate the Gold Certified Seal used on the Certification Certificates issued to holders of the CICA and CCS. The Office of the Chairman will seek out pricing and design of the pins. The Chairman has directed that the pins will be free and once available issued to all new members with the certificate package and to existing members at the time of their renewal and mailed with the member's updated membership card.

Third, as discussed in the Featured Article section to the left, we have engaged a designer to create a gold colored label pin for certified members, which we hope to complete shortly. Details of distribution are noted in the Featured Article.

Lastly, I want to personally thank all of the members who have offered prayers and good wishes to me with my battle with cancer since early 2015. I am happy to inform you that I am in complete remission with my non-operable prostate cancer after undergoing 45 radiation treatments. My skin cancer that developed from the radiation treatments is stable after more than six months of chemo but luckily it is a slow growing cancer so I am sure a cure will be developed before it becomes more serious. With this progress and your prayers I am able to return to many of my duties at the IIC. I would like to thank my staff and the Advisory Board for their help during my absence.

NOTE: With the introduction of the new IIC website in mid 2016, the IIC e-Newsletter will be accessible ONLY by members in GOOD STANDING via the Members Only Portal. A member in good standing is a member of the IIC who has maintained their membership in the IIC via annual renewal. Notice of release of the e-Newsletter will be emailed to all members for access via the IIC website.

Dr. Frank

NEWS RELEASE - IIC CREATES NEW MEMBERSHIP CATEGORIES

As we grow in 2016, the Office of the Chairman with the cooperation of the Board, have developed several new avenues to obtain the CICA or CCS certification. Beginning in mid-2016 the IIC will implement two new membership categories in areas of internal controls. Other authors are also encouraged to submit articles that will be incorporated in the e-newsletter as well as in the IIC e-Magazine.

ABOUT THEIIC

The Institute for Internal Controls is a global organization dedicated to promoting an effective internal controls environment in all organizations by providing high quality research and education in all areas of internal controls. As an indicator of expertise in internal controls, The Institute for Internal Controls grants the designation of Certified Internal Controls Auditor (CICA) and Certified Controls Specialist (CCS).
the IIC will implement two new membership categories in addition to the Certified Member status. As an entrance to preparing and registering for the upcoming Certification via Exam program and the Certification via Curriculum program, all candidates for these programs must join the IIC beforehand as an Associate Member. The Associate Member program must be maintained until the candidate either passes the certification exam or completes the Curriculum program, at which time the Associate Member will convert to the Certified Member status upon approval of the Application for Certification based on meeting all applicable requirements for certification.

In addition, in order to extend the IIC into the academic world, the IIC has commenced a Student Member status, which is open to all students registered and undergoing classes at accredited colleges and universities. As part of this program, the IIC will undergo a major project to develop student chapters. The scholarships offered by the IIC will be limited to members of the Student chapters.

Finally, as part of the Student Chapter program and to extend the Grandfathering provision, the Office of the Chairman has developed a special category for the Grandfathering Provision to include full-time educators who have developed or delivered courses involving internal controls. This will include not only accounting professors, but also IT professors teaching Information Security, Access/Data Controls courses, and Network controls, and Security professors involved in security and loss prevention controls. This list may be extended as needed.

In addition, the Grandfathering for Educators program will be extended to educators who have published significant research involving internal controls in peer reviewed publications.

Certified Educators will be encouraged to establish Student Chapters at their schools and work with the IIC in developing a standard syllabus for use in designing audit courses specific to the auditing of internal control systems.
IIA Proposes Changes to International Standards for the Professional Practice of Internal Auditing

Extract (Modified) CGMA Magazine, February 01 2016

The IIA proposed changes on February 1, 2016 to its standards for internal audit professionals, with a goal of helping practitioners meet the evolving demands of today's dynamic business environment. The proposed changes to the International Standards for the Professional Practice of Internal Auditing focus on:

* Enhancing existing standards on communications and quality assurance.
* Creating new standards addressing objectivity in assurance and consulting roles, as well as addressing new roles internal audit functions are taking on.
*Aligning existing standards to a new set of core principles incorporated last year into the International Professional Practices Framework.

Key additions under the proposed changes would include the following:

* A chief audit executive would be required to disclose and discuss implications with the board if there is any interference in determining the scope of internal auditing, performing work, or communicating results.

* Safeguards would be required to limit impairments to independence or objectivity when the chief audit executive has or is expected to have roles and/or responsibilities that fall outside internal auditing.

* Internal audit would be permitted to provide assurance services where it had previously performed consulting services, provided that the nature of the consulting did not impair objectivity and provided that individual objectivity is managed when assigning resources to the systems.

Details concerning the above new programs will be available on the new IIC website that will be available in mid 2016.
Engaging Third Parties for Internal Audit Activities - Strategies for Successful Relationships

EXCERPT - EXECUTIVE SUMMARY (Modified)

One of the biggest challenges chief audit executives (CAEs) face is having enough staff to meet demands and obtaining the right skills to complete their audit plans. To meet this challenge, many CAEs engage third parties for some of their internal audit activity. The IIA Research Foundation released a report to assist internal audit practitioners, managers, and audit committees to more effectively manage these third party relationships.

The report discusses:

- The kinds of organizations that use third parties for internal audit activities.
- Strategies for successful relationships with third parties.
- The importance of managing third party risks.
- How to ensure quality and independence in third party engagements.
- Specific disclosures to senior management and the board regarding results of the quality assurance and improvement programme would be required. The disclosures would include the scope and frequency of the internal and external assessments, conclusions of assessors, corrective action plans, and the qualifications and independence of the assessors or assessment team, including potential conflicts of interest.
- An overall opinion that is issued would be required to take into account the strategies, objectives, and risks of the organisation, in addition to the expectations of senior management, the board, and other stakeholders.

Comments can be made through April 30th at The IIA's website. After reviewing comments, The IIA plans to approve final changes in the third quarter of this year. The modified standards are scheduled to be announced on October 1st and take effect on January 1st 2017.

Link to article above

Link to IIA News release

Link to proposed IIA changes
parties for internal audit activity
- The future expectations for third-party use
- The services third parties generally provide
- Best ways to engage, supervise, and maintain third-party relationships

Lessons learned were obtained from a variety of CAEs, service providers, and audit committee members worldwide. In addition, the report describes differences between global regions and industries, using results from the CBOK 2015 Global Internal Audit Practitioner Survey, the largest ongoing study of internal audit professionals in the world.

**RESEARCH QUESTION: Who Uses Third Parties for Internal Audit Activity?**
As business partners in their organizations, CAEs must ensure that their internal audit departments have the capacity and skills to fulfill their roles. Many CAEs use third-party services to meet their long-term or short-term needs. To create a snapshot of current practice in this area, the CBOK 2015 practitioner survey asked CAEs the following question:

In the previous calendar year, were some of your organization's internal audit activities provided by a third party (either internal or external to your organization)?

Findings for global regions noted that 38% of CAEs say they use third parties for internal audit activity, with North America having a notably higher rate than other regions. More than half of North American CAEs report using third parties, compared to a range of 27% to 43% for CAEs in other regions of the world. Another important difference can be seen by looking at different organization types. Public sector and privately held organizations were less likely to use third parties for internal audit activity than the financial sector, publicly traded organizations, and not-for-profits. CAEs who perceive their budget to be "not at all sufficient" report substantially lower use of third parties.

**RESEARCH QUESTION: How Much Work Do Third Parties Perform?**
We've examined how many organizations use third parties for internal audit activity.
We've examined how many organizations use third parties to support or enhance the internal audit activity. Now let's look at the extent to which these organizations rely on third parties. Survey respondents who indicated that they use third parties for internal audit activity were asked: What percentage of your organization's internal audit activities were performed by a third party in the past calendar year. On average, these organizations use third parties for about 23% of their internal audit activity. The highest percentage of activity is in South Asia and Middle East & North Africa (both with more than 35%). The lowest is in Europe (17%). When responses are compared between different organization types, it can be seen that the financial sector is lower than the global average for amount of activity performed by the third parties.

**RESEARCH QUESTION: What Are Expectations for Future Use of Third Parties?**

The CBOK 2015 practitioner survey also explored future use of third parties by asking CAEs: How do you anticipate that your budget for third-party internal audit resources (either internal or external to your organization) will change in the next year? Among survey respondents, the regions that are the most likely to expect an increase in their third-party budgets next year are South Asia and Middle East & North Africa. These regions also have the highest percentage of internal audit activities performed by third parties. The report also shows that while Sub-Saharan Africa has a substantial percentage who expect an increase in their third-party budgets (42%), it also has the highest percentage who expect a decrease (20%). Finally, for the rest of the world, the majority of respondents expect their third-party budgets to stay the same.

The report noted that the size of an internal audit department has an interesting relationship to the use of third parties. A comparison of the use of third parties in the current year to expected increase in third-party budget for next year revealed that 32% of the smallest departments report using third parties, compared to a range of 41% to 56% for medium to large groups. Their future expected use of third parties follows a similar path. However, in contrast, the largest
RESEARCH QUESTION: What Types of Services Are Provided by Third Parties?
Third-party services are commonly used to:
- Provide specialty skills not available in the internal audit department
- Solve staff shortages
- Supplement staff on an ongoing basis
- Cover remote business locations
- Perform special projects

The type of usage differs according to the characteristics of the organization. The report illustrates this by comparing third-party use between a Swiss financial services and a Middle East oil company.

The report also noted that in some cases, an organization may not be able to hire fulltime internal auditors in-house, so it will outsource all of its internal audit activity. In these cases, The IIA maintains that "oversight and responsibility for the internal audit activity cannot be outsourced." In other words, an individual who is internal to the company should retain responsibility and oversight of the internal audit activity, even if all of the work is performed by a third party.

RESEARCH QUESTION: What Are Best Practices for Relationships with Third Parties?
Ensuring successful management of third-party relationships is of utmost importance. While third parties may interface with management and/or the audit committee, the CAE is ultimately responsible for third-party effectiveness. Therefore, CAEs must 1) have a sufficient understanding of the objectives the service provider will fulfill, 2) communicate and sufficiently document these objectives during the engagement process, and 3) provide adequate supervision to the service provider to ensure the objectives are met.

This report lists the most important questions that need to be answered when engaging in third-party services.
need to be answered when engaging in third-party relationships. This list is based on insights from interviews conducted with a variety of CAEs, third-party service providers, and audit committee members.

Click on link below to read entire report

**LINK TO IIA FOUNDATION PUBLICATION**

**IIC Developing ICQ Library for Members Only Portal**

As part of the design of the new IIC website, which will contain a Members' Only Portal, the IIC is soliciting members to donate Internal Control Questionnaires for use by members. It should be noted that all ICQs should be non copyrighted or if copyrighted, contain a release to allow use by the IIC and its members.

An email alert will be sent to the membership providing more details of this project. As an incentive all members who donate an acceptable ICQ will be awarded one raffle ticket for a drawing for the award of a $200 gift card.

**The Password Policy Template You Want**

This privileged password security policy template provided by THYCOTIC gives you best-practice policies to help your organization improve IT security and demonstrate regulatory compliance. Although it is marketed as a tool that will save you hours of effort leveraging these policies that are easily customizable in a matter of minutes and develop a best practices standard that can be incorporated into an ICQ, it is also a great source of basic information for the non IT internal controls professional.

Areas included:
* System Approval and Authorization
* Password Categorization
* Password Composition
* Password History and Change Interval
* Account Lockout and Compromised Passwords
IIC Releases Certification via Curriculum Program

Commencing in 2016, candidates can earn the CICA or CCS certification by completing a curriculum of courses in the areas of internal controls. The program will entail corporate ethics and governance courses, how to courses, and tools and technique courses. The curriculum syllabus will be outlined in the new IIC website which will be released this year. The courses will initially be held in live group sessions, and then converted to DVD/CD-ROM format with examinations held online at the end of each course. Once all course requirements are met, the candidate can apply for the CICA or CCS and candidates who meet all the requirements for certification will be awarded the professional designation. The program will be phased in over a one year period as courses become available.

How Audit Committees Can Take the Lead In Stemming Third-party Risks

EXCERPT - CGMA Magazine (Modified)

Audit committees have plenty of risks to worry about within their organisations. But risks outside company walls, that is, third-party risks including bribery and fraud along the supply chain, can be just as harrowing. The risk of fraud appears to be a growing concern globally. Thirty-seven per cent of respondents in a 2014 global economic crime survey by PwC reported being hit by fraud, up from 30% in the 2009 survey, and 62% of audit committee members want to devote more time to oversight of the risk process, according to
time to oversight of the risk process, according to a 2015 survey by KPMG.

A new report (2016) from PwCs Audit Committee Series "Oversight of third party risks", offers advice for audit committees to mitigate third-party risks. Many of the world's large companies have thousands of suppliers. The PwC report said that 89 of the companies in the Fortune 500 average more than 100,000 suppliers each. The risks that companies are exposed to because of those suppliers can be exponential, especially if those third parties have third-party suppliers of their own.

A company's brand and reputation are at stake, and some companies have faced legal action and fines for the actions of third parties. Also at stake is the potential loss of intellectual property (IP).

PwC recommends that audit committees take the lead on third-party risks, noting that these types of risks are not always covered by a company's traditional internal controls or enterprise risk assessments.

Audit committees should:
* Understand the nature and number of significant third-party relationships.
* Evaluate how audit committee oversight should consider controls over third-party risks comprehensively.
* Evaluate whether general counsel is sufficiently engaged and aware of the importance of its role in third-party risk control as it relates to contracts with those third parties.

**Steps toward Mitigation**

The report offers five advance steps and four ongoing steps that an audit committee can take to facilitate its oversight and potentially mitigate third-party risks. Here are some steps to take as a relationship is being formed:

1. Due diligence on reputation and capabilities: From simple web searches to using questionnaires about compliance practices to
Questionnaires about compliance practices to making site visits, knowing more about a third party is the first step.

2. Proper reporting lines for third-party compliance: This relates to a company's governance. Organisations will be better equipped to mitigate risk if there is an assigned owner of the third-party management function.

3. Adequate contracts and policies: Agreements should cover protection of IP, training of third-party employees, and rights to audit, and should define how the third party will "protect the company's IP, how employees will be trained in protecting the IP, and also anti-corruption matters for employees."

4. Right to terminate the relationship for violations: Standard contracts should protect the company in the event that a third party violates terms of the agreement.

5. Extend employee hotlines: To prevent the risk of corruption, PwC recommends giving third parties access to the company's whistleblowing hotlines. Enabling anonymous reporting at the supplier level can give the company an early warning.

Additional ongoing measures include:
1. Set up monitoring of high-risk parties: This process is defined differently by companies, based on dollar value of the relationship, the nature of the company's IP that the third party can access, or other measures.

2. Obtain periodic representations of compliance: Third parties could be required to submit evidence of compliance, including that entity's own audit. A company's decision to require periodic updates should depend on the level of risk the third party presents to the company.

3. Exercise the right to audit with a documented process: Following through on the right to audit with an actual audit that sends a clear message to the third party about the importance of compliance -with a contract.
4. Monitor metrics and reporting: Key metrics should be regularly tracked, with specifics related to the nature of the third party's work with the company. Following up is vital when data reports are late or incomplete.

Click here for copy of PwC Report

**Link to CGMA Magazine article above**

**Scholarship Fund Established**

As part of the Changes implemented by the Office of the Chairman last year, a Scholarship Fund has been established for award to undergraduate students majoring in accounting/auditing, IT, or Security. The scholarships will be funded by donations from members at renewal time as well as direct contributions from the IIC. Scholarships will be awarded based on set amounts collected. Plans are to award at least one scholarship each year. Scholarships will be awarded based on financial need. Student Members of Student Chapters will be given priority for award of all scholarships.

**FREE Job Posting Service**

As a service to our members, the IIC offers all members, their organizations, and recruiters FREE Job Posting Service. The IIC will post any appropriate job opening the may be of interest to the membership. Postings must include the title of the position, the organization and department, and the location of the position. Salary information is optional but recommended to prevent frivolous inquiries. In addition, a "direct link" to the job posting at the organization's website must be provided. Doc files will no longer be accepted. Note that when listing certifications required or preferred for the position, the list MUST include the CICA or CCS as a preferred certification at a minimum. Job postings will be posted for 60 days or until notice is received by
the IIC that the position has been filled. In addition to posting on the IIC website the Office of the Chairman may email the membership alerting them of the opening. All requests for posting should be emailed to the Office of the Chairman at chairman@theiic.org.

Details for this service are available at the Job Openings page of our website as well as the Resources page.

**URGENT - UPDATE YOUR PROFILE**

All members are reminded that the IIC is a GREEN organization and as such minimizes all paper mailings. Most communications from the IIC to the membership is via email. Therefore it is imperative that the IIC have your current PRFERRED email address. Please provide ALL changes to both your personal and work email immediately to ensure you received all communications from the IIC, including the e-newsletter, notices of Job Openings, as well as important communications. &lt;br&gt; Note that this information will also be used to set up the Members Only Portal on our new website, which will allow members to change their information online. This information will also be used for mailings and invoicing.

**Call for Papers & Articles for The Internal Controls Magazine**

A key resource for members is the sharing of information among the membership via papers and news articles. Subject matter including techniques for reviewing internal controls, discussion of available tools, case studies, etc. can assist both the new and experienced internal controls auditor/specialist.

If you would like to submit a paper, article or monograph on any subject matter that may be of interest to the membership, we encourage you to do so. You can direct your material for review to
In 2015 the Office of the Chairman, with the approval of the Advisory Board, began a project to develop a logo for the IIC to use in addition to the IIC seal. In the design of the logo we took the inner circle from the seal and now incorporate this as the official IIC Logo. In line with this we will now refer to the institute as the "IIC" although we will continue to use the acronym "TheIIC" to reflect our internet domain name, as well as a distinct trademark for the association. We will begin incorporating both the new logo and modified seal in our new website that we expected to be "live" in the Spring 2016. We will also include the new designs in future certificates, stationary, and all communications media. Both the logo and seal will be available for members to download for use on their stationary and business cards via the Resource section of the Member's Only site in our new website. Note that the use of the logo and seal is authorized for use only by members in good standing who are active members of the institute. The new logo is shown above.

Message from the Editor: Welcome for First-timers

For first timers, I would like to welcome you to the TheIIC e-Newsletter. In the design of the newsletter we completed extensive research on how to make the e-newsletter successful. As you can see, the layout is a little different than you see in other e- newsletters. While most e-newsletters only give you a few lines of the article, with a link to the full article, we have decided to present an abstract type summary of each, with a link to the full article, when
each, with a link to the full article, when available. We feel that this allows you to get the substance of the article without having to link to another site. However, we do provide a link for those who want any additional details available. This also provides you with the ability to print out the newsletter and read it at your leisure.

NOTE that to successfully pass the QUIZ you will need to download some of the articles or reference material via the links provided.

We encourage any comments or suggestions for improving the e-newsletter. Comments as well as contributions for publication should be sent to me at e-newsletter@theiic.org.

**Call for Volunteers**

As discussed in previous communications from the IIC, we are seeking volunteers for the following positions:

- Organizers to commence operations to start local chapters.
- Volunteers to present as instructors training courses.
- Volunteers to develop courses on internal controls, ethics, auditing, etc.
- Authors and contributors for articles for the upcoming Internal Controls Magazine.
- Educators and researchers to present articles on research related to internal controls for publication in the upcoming Journal of Internal Controls.

All interested members should contact the Chairman at chairman@theiic.org.

**Instructions for CPE Quiz**

An active member in good standing is eligible to earn one CPE via completion of the quiz below with a passing grade of at least 70%. For download of the
of at least 70%. For download of the quiz, click on the link below, select the best answer listed for each question, and submit to the IIC before the deadline. Note that no quiz will be accepted for grading after the deadline. A quiz will be graded within 10 business days after receipt. A Certificate of Completion for 1 CPE credit will be emailed to members with a passing grade of 70%.

NOTICE: FOR SUBMISSION OF THE QUIZ. WE ARE NOW USING GOOGLE DOCS/FORMS. THE QUIZ MUST BE COMPLETED ONLINE AND SUBMITTED VIA THE SEND FORM BUTTON.

SEE QUIZ FOR SUBMISSION DEADLINE

Link to Download Quiz

NEW IIC SEAL

email: e-newsletter@theiic.org
phone: (856) 982-2410
web: http://www.theiic.org