

THE CONTRIBUTIONS OF LAWRENCE B. SAWYER
TO THE PROFESSION OF INTERNAL AUDITING

BY

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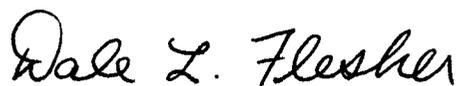
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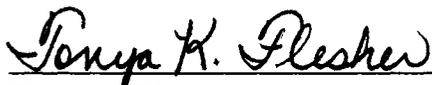
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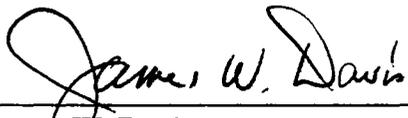


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The study could not have been done without the participation of friends, family and associates of Lawrence B. Sawyer. His daughters, Barbara Witt and Linda Kuhns, were very gracious in talking to me about their father, sharing photographs and memories that were very dear to them. The photographs and poems are presented with their permission. Barbara opened her home to me for a personal interview, as did Paul Heeschen. We were strangers but they welcomed me and were more than willing to share their time. Heeschen was a personal friend and work associate of Sawyer. As his immediate supervisor at Lockheed, he knew Sawyer well and was able to provide a lot of information. Frederic Mints, D. Eugene Shaeffer, C. N. Inman and Basil Pflumm were friends and associates who also granted personal interviews and provided valuable information. Others shared their time and memories with me by phone. I had more than one phone conversation with Mortimer Dittenhofer and James H. Scheiner, coauthors with Sawyer on his book. They provided very interesting stories about working together on Sawyer's Internal Auditing. I enjoyed very much my phone conversation with Anne Graham, who also participated with the fifth edition of the book. She was the editor of the journal in which many of Sawyer's articles were published and had known Sawyer

for many years. Professor Gerald Vinten provided interesting memories of working with Sawyer on a book project. W. E. Thompson, past president of the Institute of Internal Auditors (IIA), Thomas Warga, current IIA chairman and IIA staff members Stacy M. Mantzaris, Susan Leone, and Trish Harris, all shared their memories of Sawyer as did others. Some unpublished material was provided by staff members and is presented with their permission, a poem and award presentation comments. I thank Lucy Sheets at IIA for use of the library facility for interviewing and use of library materials. To Judy Burke at IIA, I extend my appreciation for suggestions on IIA members to contact, sending letters, and arranging interviews. A special thanks to all those who took time to participate. Your memories made Lawrence B. Sawyer come alive for me. I really feel as if I knew him.

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My family and friends were a tremendous help in giving emotional support and encouragement. My husband, Sam, has been more than patient in enduring my absences. Friends at the University of Mississippi made it possible for me to avoid dropping out of the program during my father's illness. My mother and brothers were always there when I needed them to help at home and with encouragement and understanding. Friends at Arkansas Tech University taught my classes when my husband was ill. Family and

friends help in so many ways that get taken for granted. I thank you all. Both my father and sister passed away while this project was in process. Their love and support are with me still. I dedicate this work to their memory.

ABSTRACT

THE CONTRIBUTIONS OF LAWRENCE B. SAWYER TO THE PROFESSION OF INTERNAL AUDITING

GOZA, NINA M. B.S., Arkansas State University, 1981. M.B.A., University of Central Arkansas, 1992. Ph.D., University of Mississippi, 2005. Dissertation directed by Dr. Dale L. Flesher.

Lawrence Sawyer is known as The Father of Modern Internal Auditing. He was active in the Institute of Internal Auditors as a member for forty-five years serving as chapter president, and on the local board of governors. At the national level he served as chair of the International Research Committee, and as a member of the professional standards subcommittee. Other national appointments included Director-at-Large and member of the Board of Regents.

Sawyer has given more than 100 speeches, conducted 186 seminars, authored or coauthored 11 books, two video series, and over 40 journal articles on internal auditing. His book Sawyer's Internal Auditing is a top selling college textbook as well as the reference source for practitioners. Sawyer won the IIA's annual Thurston Award for writing excellence four times and the Outstanding Contributor three times for his articles. Other awards for his contributions include the Bradford Cadmus Memorial Award, the Victor Z. Brink Award, and the Lifetime Achievement Award.

A series of articles was published in the 1970's called "The Grandfather Dialogues". Each article consisted of a conversation between a grandfather and grandson about internal auditing. They were later published as a book entitled Modern Internal Auditing: What's it all about? The Grandfather Dialogues.

Sawyer's other writings are categorized by subject as relating to the practice, politics, philosophy, and the profession of internal auditing. The writings are summarized and analyzed for consistency. Inconsistencies are explained by changes in the environment or the profession. Comparison to an internal auditing professional timeline indicated that Sawyer's ideas were rarely original or new. He wrote about topics that were being practiced by the leaders in the profession at the time. Sawyer provided expanded coverage of topics that brought information together from other sources into one useful resource, his book. Many of his writings are still relevant to today's internal auditing profession including internal control and fraud prevention.

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CHAPTER I

INTRODUCTION

Lawrence Sawyer has been called Mr. Internal Auditor¹, The Father of Internal Auditing², and The Grandfather of Internal Auditing.³ “Larry has singularly impacted this profession more than any other individual to date” according to a past Chairman of the Institute of Internal Auditors, Howard Johnson.⁴ Sawyer was a practicing internal auditor working in government and industry for over 40 years.⁵ In later years he had his own consulting firm and taught at several universities.⁶

Sawyer was active in the Institute of Internal Auditors (IIA) as a member for 45 years and was a Certified Internal Auditor (CIA) having received the fourth certificate awarded.⁷ He was active at the local chapter level and even served as chapter president, 1966-67.⁸ However, he was not a founder of the IIA nor did he play any part in the organization’s early years. Normally it is the founders or leaders at the national officer level that receive recognition, yet Sawyer made significant contributions in the areas he strongly supported. At the national level he served as chair of the International

¹ “In Memoriam,” Internal Auditor (December 2002), p. 76.

² “In Memory,” Audit Wire (November/December 2002), p. 11.

³ “What do Internal Auditors Do?” IIA Educator (Fall 1998), p. 11.

⁴ “Newsmakers,” Audit Wire (September/October 2000), p. 6.

⁵ “What do Internal Auditors Do?” p. 11.

⁶ “Obituaries-Lawrence B. Sawyer,” Ventura County Star (September 22, 2002).

⁷ “In Memoriam,” p. 76.

⁸ Lawrence B. Sawyer, “The Lawyer, the Statistician and the Internal Auditor,” The Internal Auditor (Summer 1967), p. 9.

Research Committee, 1969 – 1971, when the Statement of Responsibilities was revised.⁹ Another important need was addressed when he was appointed to the professional standards subcommittee in 1975. The hard work paid off in 1978 with the adoption of five general standards, 25 specific standards, and a number of guidelines for practice.¹⁰ Other national appointments included Director-at-Large, 1971-1974¹¹ and member of the CIA Board of Regents, 1975-76¹². This board oversaw the preparation, administration and grading of the first CIA examination.¹³ For his work in the areas of professional standards and professional responsibilities, he was recently listed in an IIA Research Foundation report as one of the two most influential people in the history of the IIA, the other being Victor Z. Brink.¹⁴

Lawrence Sawyer is probably best known for his writing.¹⁵ He was the most cited author in a study of Internal Auditor citations.¹⁶ He authored or co-authored 11 books, two video series, and wrote over 40 articles for the IIA's monthly award-winning journal, Internal Auditor.¹⁷ His first book, The Practice of Modern Internal Auditing was listed as number one on a top ten list of best books on internal auditing.¹⁸ This book has been

⁹ Lawrence B. Sawyer, "Observations on the 1971 Revision of the Statement of Responsibilities of the Internal Auditor," The Internal Auditor (September/October 1971), p. 9.

¹⁰ Lawrence B. Sawyer, "A Mini-history of the Standards," Internal Auditor (June 1988), p. 22-32.

¹¹ Victor Z. Brink, Foundations for Unlimited Horizons, the Institute of Internal Auditors, 1941-1976 (Altamonte Springs, Florida: The Institute of Internal Auditors, 1977), p. 144-145.

¹² Dale L. Flesher, The Institute of Internal Auditors: 50 Years of Progress through Sharing (Altamonte Springs, Florida: IIA, 1991), p. 45.

¹³ *Ibid.*, p. 43.

¹⁴ Sridhar Ramamoorti, "Internal Auditing: History, Evolution, and Prospects," Research Opportunities in Internal Auditing (Altamonte Springs, Florida: The Institute of Internal Auditors, 2003), p. 5.

¹⁵ "What do Internal Auditors Do?," p. 11.

¹⁶ Gerald Smith, Jack L. Krogstad, and Claire Smith, "Searching for Our Roots Through Citation Analysis." The Internal Auditor (February 1986), p. 59.

¹⁷ Lists of books written and edited are provided; see Appendices D and E. Lists of journal articles are included, in alphabetical order, Appendix B, and in chronological order, Appendix C.

¹⁸ Dennis L. Kimmell, Guardarshan S. Gill, and Darlene K. Ahnberg, "Internal Auditors' Favorite Books," Internal Auditor (June 1991), p. 63.

credited with changing the profession of internal auditing.¹⁹ A coauthored book, Internal Auditor's Handbook also made the top ten list.²⁰ The number one internal auditing college textbook worldwide is Sawyer's Modern Internal Auditing, fourth edition.²¹ His books have been translated into seven languages.²² He also edited or was associate editor of five other books published by the IIA²³. Sawyer and an associate, Frederic E. Mints, have been recognized as playing a major role in preparing study material for the Certified Internal Auditor Exam in its early years.²⁴

Sawyer won the IIA's annual Thurston Award for writing excellence four times for articles published in the Internal Auditor. This is more than any other writer.²⁵ Three of his other articles were nominated and honored with the Outstanding Contributor Award, which is given to the top five runners-up for the Thurston Award annually.²⁶ Sawyer's articles were written from a practical viewpoint from his own work experiences and "covered virtually every facet of internal auditing over a host of years"²⁷. The books mentioned above are practice oriented as well, but include human relations and theory. In this study, the topics from his writings are categorized as: (1) "Grandfather Dialogues", (2) practice, (3) professionalism, (4) politics, and (5) philosophy of internal audit. Each of these five categories was analyzed separately.

One group of articles clearly seems to stand out from the rest. A series of articles was published in the 1970's called "The Grandfather Dialogues". This series won him

¹⁹ "What do Internal Auditors Do?," p. 11.

²⁰ Kimmell, Gill, and Ahnberg, p 63.

²¹ "In Memory," p. 11.

²² "Obituaries-Lawrence B. Sawyer," Ventura County Star (September 22, 2002).

²³ A list of books edited is provided, see Appendix E.

²⁴ Brink, p. 73.

²⁵ Flesher, p. 82.

²⁶ A list of award winning articles is provided; see Appendix F.

²⁷ Joanne Hodges, "Known by His Words," Internal Auditor (December 2002), p. 6.

the title of The Grandfather of Internal Auditing.²⁸ Each of the twelve articles consisted of a conversation between a grandfather and his grandson explaining a topic relevant to internal auditing in a manner that a teenager would be able to understand. This style was called light prose and was the subject of several letters to the editor of The Internal Auditor, some for and some against. Some of these articles were also included later in a book entitled Modern Internal Auditing: What's it all about? The Grandfather Dialogues. The book included other grandfather-grandson conversations on internal auditing that were never published in The Internal Auditor.²⁹

In an article celebrating the first fifty years of the IIA, Sawyer was listed as one of nine individuals who made a difference in internal auditing. His contributions were not only in leadership and writing, but in extensive lecturing as well.³⁰ He is credited with giving more than 100 speeches and conducting 186 seminars all over the world.³¹

For outstanding contribution to the profession, the IIA's most prestigious award, the Bradford Cadmus Memorial Award, was given to Sawyer in 1973.³² In 1993, he received the IIA's Victor Z. Brink Award for Distinguished Service. Just two years before his death, in 2000, he received the first ever Lifetime Achievement Award from the IIA.³³ The IIA's international library and an award were named after him.³⁴ The Lawrence B. Sawyer Award is given annually to the chapters and organizations

²⁸ Ibid.

²⁹ A list of published articles and chapters from the book is provided; see Tables 5 and 6, pages 153 and 155.

³⁰ Mary Ellen Oliverio, "Nine Who Made a Difference in Internal Auditing," Internal Auditor (June 1991), p. 48.

³¹ "In Memoriam," p. 76.

³² Flesher, p. 159.

³³ "In Memory," p. 11.

³⁴ "Obituaries-Lawrence B. Sawyer," Ventura County Star (September 22, 2002).

demonstrating the greatest support for the Certified Internal Auditor Program.³⁵ An IIA Research Foundation scholarship is awarded annually in the name of Sawyer's wife, Esther R. Sawyer, in honor of the help and support she gave to her husband in his work.³⁶

This study analyzes the contributions of this man to the profession. Following this introduction, the rest of the chapter is a discussion of why and how the study was done. The first two sections and a later section give the motivation for a study of Lawrence B. Sawyer's contributions to internal auditing. Other sections present the plan for the study. Also, the literature studied and areas of research are described. The chapter concludes with a brief introduction to the subject matter in each area of research.

The Problem

There have been many studies of individuals who contributed to the area of accounting theory and the development of the accounting profession.³⁷ There have been no such studies in the area of the internal auditing profession. A recent publication by the IIA Research Foundation invites research in internal auditing history as well as seven other topics. Related to internal auditing history, areas in need of research include events that triggered development, the status of internal audit as a function of organizational leadership, impact of economic and cultural variables, and analysis of attitudes and posturing within organizations.³⁸ All of these ideas could be addressed through a study of the writings of Lawrence B. Sawyer. Following a summation of the profession's history, Sridhar Ramamoorti said:

³⁵ "New CIA Awards Honor Lawrence Sawyer," *Auditing News* (January/February 1998), p. 9.

³⁶ "Foundation Announces Esther R. Sawyer Scholarship Award Winner," http://www.theiia.org/iaa/index.cfm?doc_id=3653 (accessed 8/7/2003), p. 1.

³⁷ A list of dissertations is included, see Appendix A.

³⁸ Ramamoorti, p. 16.

Internal auditing has evolved remarkably over the last 60 years and has gained an increasingly important role within organizations, whether in industry, government, or the nonprofit sector. Alongside this development, the internal auditing function today accepts a broader responsibility toward the organization itself and its stakeholders. By offering expanded assurance and consulting services to the organization, i.e., in particular to the audit committee of the board of directors as well as to executive management, the internal audit function effectively contributes to improved organizational governance. Furthermore, information assured by internal auditors enhances both internal and external decision-making, thereby improving the deployment, and the effective and efficient use of scarce organizational and economic resources.³⁹

This rapid change is an interesting topic for study and is encouraged by Ramamoorti. He said that developments in practice must be carefully studied to build up a body of knowledge to pass on to future generations. He goes on to say that this will also encourage and stimulate leading edge thinking that can produce innovations.⁴⁰ This mirrors what others have said about the study of accounting history.

The Value of Historical Research

In 1970, the American Accounting Association Committee on Accounting History encouraged research in accounting history in several areas including biographical. This research was defined as the “study of the evolution in accounting practice and institutions in response to changes in the environment and societal needs”.⁴¹ The committee believed such research served two purposes, intellectual and utilitarian. The intellectual purpose is that the research can illuminate the development processes of thought, practices, and institutions, by identifying the environmental factors, which induce change and by revealing how change occurs. The utilitarian purpose of historical research is to provide

³⁹Ibid., p. 13.

⁴⁰ Ibid.

⁴¹ “Committee on Accounting History,” The Accounting Review, (supplement 1970), p. 53.

insight for the solution of today's problems through identification of the origins of concepts, practices, and institutions. Understanding how the environment impacted the changes may help predict the results of proposed solutions to today's problems.⁴²

The Academy of Accounting Historians was formed in 1973 to "encourage research, publication, teaching and personal interchanges in all phases of accounting history and its interrelation with business and economic history."⁴³ The organization has published various collections of working papers on accounting history. In its first volume, Vahe Baladouni said "Intelligence and sensitivity with which men act in the present depend, at least in part, on the perspectives they drew from the past."⁴⁴ He says the study of history can increase one's intellectual curiosity and sensitivity and by understanding the changes in the past, one can better accept change that is needed in the present. This can happen through an increased flexibility and openness of mind.⁴⁵ Baladouni claims that the study of history contributes to our understanding in three ways: (1) to gain a more comprehensive view, (2) to better relate accounting to other disciplines, and (3) to gain insight which can lead to subsequent development.⁴⁶

Wallace E. Olson, a former president of the American Institute of Certified Public Accounts (AICPA) and accounting history author said this about his own book:

It has long been a truism that those who ignore history are doomed to repeat the mistakes of the past. With this in mind, it would seem appropriate at the end of the 20th century to retrace the development of the public accounting profession in the U.S. to see what guidance the past may offer to the future.⁴⁷

⁴²Ibid., p. 54.

⁴³ The Academy of Accounting Historians, Bylaws Article No. I, Objectives.

⁴⁴ Vahe Baladouni, "The Study of Accounting History," Academy of Accounting Historians Working Paper Series, Vol. 1, Edward Coffman, Ed. (University of Alabama: The Academy of Accounting Historians, 1979), p 318.

⁴⁵ Ibid.

⁴⁶ Ibid., p. 318-319.

⁴⁷ Wallace E. Olson, "The Accounting Profession in the 20th Century," The CPA Journal (July 1999), p. 29.

An AICPA member recently wrote a letter to the editor of the Journal of Accountancy supporting historical accounting research:

The origins and development of accounting should receive more attention today. Sometimes accountants fail to appreciate accounting history due to their focus on current/emerging issues. As a result they may ignore some practices that still have relevance today.⁴⁸

This fear that information could be lost is not unwarranted. According to Gary Previts, it would be difficult to identify who's who in accounting of the 1800s. He called it a lost century of accounting history.⁴⁹ S. Paul Garner said:

Every profession should take modest pride in its background and development. In fact, one of the attributes of any recognized profession is relative concern for and its energy in, ferreting out items concerning its origin and evolution. Accounting should be no exception to this general prospective.⁵⁰

Barbara D. Merino said "Historical research is necessary to discover the component ideas of early accounting thought which have become the elements of new and larger concepts and movements."⁵¹ She felt that it was important to give public recognition to the dedicated individuals who were critical to the evolution of accounting. In her dissertation she studied the works of seven leaders during the period 1900-1925.⁵² She stated:

The growth of any institution depends upon the character of its leadership. Institutions can respond to changes only through thoughts, ideas, and values held by those who make up the institutions. By isolating fundamental concepts, the relevance of the past to the present becomes

⁴⁸ Andrew D. Sharp, "Letters," The Journal of Accountancy (May 2003), p. 11.

⁴⁹ Gary John Previts, "It's About Time . . . Pathways to a New Vista of Accountancy's Past," The Accounting Historians' Journal (1975), p. 1.

⁵⁰ S. Paul Garner, "Reflections on the Uses of Accounting History," The Accounting Historians' Journal (1974), p. 1.

⁵¹ Barbara D. Merino, "The Professionalization of Public Accounting in America: A Comparative Analysis of the Contributions of Selected Practitioners 1900-1925," (Ph.D. dissertation, University of Alabama, 1975), p. 1.

⁵² *Ibid.*, p.4.

more clearly evident. The actions of accounting practitioners provide insight into their needs, motivations and goals, which may have shaped the development of their personal philosophies of accounting.⁵³

It is important to give recognition to the individuals and their accomplishments

lest they become forgotten. Some may not be familiar with Mary Murphy, yet she ranked fourth in the number of articles published in The Accounting Review during the years 1926 through 1985.⁵⁴ Speaking of Mary Murphy's belief in the need for accounting biography, it was said:

Summarizing the contributions of leading accounting personalities was especially important since their lives and convictions provided the basis of the traditional heritage upon which the accounting profession is founded. She felt that members of the profession owed a great debt of gratitude to their predecessors.⁵⁵

Murphy felt frustration in the lack of accounting biography as shown by the following statement. "Those who seek knowledge of the steps taken by practitioners . . . to attain solidarity of purpose, professional recognition, and ethical standards, all now taken for granted, must search through biographical sketches and obituary notices of professional leaders, addresses of officers of societies, and scattered articles and reminiscences, for clues to what has transpired and, more importantly, to the significance of men and events."⁵⁶ Therefore another purpose for accounting historical research is to facilitate further study by students and researchers by documenting the significance of individuals.

Dale L. and Tonya K. Flesher recently wrote about accounting biography:

The history of any field, including accounting is dependent upon the contributions of the practitioners and theoreticians in the field. As a

⁵³ Ibid., p. 2.

⁵⁴ Margaret Ann Hoskins, "The Murphy Models for Accounting: A Test of Relevance," (Ph.D. dissertation, University of Mississippi, 1992), p iii.

⁵⁵ Ibid., p. 313.

⁵⁶ Mary E. Murphy, "Notes on Accounting History," Accounting Research, (January 1950), p. 275.

profession, such as accounting, reaches a level of maturity, that maturity is supported by recognizing the contributions of the pioneers who laid the foundation on which the profession is based.⁵⁷

R. H. Parker believes that “Accounting historians should concentrate on accountants as well as accounting; partly because accounting thought and practice are clearly not independent of who thought and who practiced; partly because accounting history is part of social history and not just the history of a technique.”⁵⁸

William Baker Flowers said:

Often an exceptional person acquires a “public personality,” which is perpetuated through stories. The person is usually known for the positions attained or because of a list of notable achievements. As time passes the stories become subordinated to the list of achievements.⁵⁹

Later he concludes: “the key people, whose personalities are woven into the fabric of the age, may well go unheralded in a short while because we fail to grasp the full value of capturing their personalities through biography.”⁶⁰

Gary John Previts studied the writings of eight of the earliest leaders in accounting, examining their life and the environment of the period to understand their contribution to an accounting school of thought.⁶¹ His view is that we need to study individuals and their role in transforming the profession and this “assists in the study of the relationships, reason, and circumstances which create events”.⁶²

⁵⁷ Dale L. and Tonya K. Flesher, “Biographical Research in Accounting,” Doing Accounting History Contributions to the Development of Accounting Thought, Studies in the Development of Accounting Thought, Vol. 6, Richard K. Fleischman, Vaughan S. Radcliffe, and Paul A. Shoemaker, Eds. (New York: Elsevier Science Ltd., 2003), p. 97.

⁵⁸ Parker, R. H., “Research Needs in Accounting History,” The Accounting Historians’ Journal (1977), p 6.

⁵⁹ William Baker Flowers, “Biography and Accounting History,” The Accounting Historian (October 1974), p. 1

⁶⁰ *Ibid.*, p 2.

⁶¹ Gary John Previts, “A Critical Evaluation of Comparative Financial Accounting Thought in America 1900 to 1920,” (Ph.D. dissertation, University of Florida, 1972)

⁶² Gary John Previts, “In Pursuit of Historical Knowledge: A View from America,” Indian Journal of Accounting, (December 1973), p. 38.

In summary, study of past mistakes, problems, and solutions, may help to solve a modern day problem. The study of the development of accounting leads to a better understanding of the profession today. This understanding is more comprehensive and includes how accounting interrelates with the environment and other disciplines. Perspective and insight are gained. This can lead to more open-minded thinking and new innovation. Knowledge of past changes facilitates acceptance of current changes. The knowledge gained can be useful to students and researchers and can be passed down. The accounting profession today is a direct result of the contributions of the pioneers who laid the foundation. Those leaders deserve recognition of their accomplishments.

Objectives

The primary objective of this study was to examine the contributions of Lawrence B. Sawyer to the profession of internal auditing. This was done primarily through analysis of his published works. Sawyer was chosen because of the number of publications on internal auditing, the wide variety of subject matter, and the important leadership roles held. The awards granted to Sawyer alone show that he has been influential to internal auditing. His writings were categorized and summarized. Consistencies and inconsistencies were identified. The changes in his philosophy were integrated with environmental forces that may have affected his philosophy. These philosophies were compared to pronouncements of the IIA and developments in the internal auditing profession to judge the impact that his leadership and publications may have had. A timeline was used for this purpose that was borrowed from the IIA. This timeline has publications and changes occurring in the profession by year. Analysis

indicated the degree and nature of Sawyer's impact on the profession. For example were Sawyer's ideas new and at the forefront, leading the profession or were the changes already occurring in the profession, and just being promoted and explained by Sawyer's writings? A brief history of internal auditing up to the time Sawyer entered the profession and a summary of the business environment at the time help to explain what influenced the man and his philosophies, as did the biographical data gathered. Interviews provided background material on his character and personality as well as people and events that made a difference in his life and helped to illustrate the motivation behind his philosophies about internal auditing.

Scope and Limitations

The scope of this research was limited to the work of Lawrence B. Sawyer in selected areas of internal auditing. The primary emphasis was on analysis of his published works. The influence of environmental factors, family, colleagues, and the internal audit environment at the time he entered the profession was given consideration as well.

A primary limitation is that the subject under study is deceased and can not be interviewed. Thus the study will rely more heavily upon the evidence that remains. As the scope of this research is limited to internal auditing, there is no attempt to analyze Sawyer's work as an attorney, or his work in governmental auditing except in some incidental way that it may have had an influence on his internal auditing philosophy.

Contributions

The primary contribution of this research is in documenting and analyzing the works of Lawrence B. Sawyer and his influence on the internal auditing profession. Many dissertations have been done on early pioneers in the public accounting profession, but none on the early leaders of internal audit. This study helped to fill a void in accounting history research. It will bring to light the accomplishments of a leader that could easily be forgotten by many accountants. It is hoped that the result will be useful to students and researchers who wish to study the history of internal auditing. His works were compared with the official pronouncements and the state of internal auditing today, to speculate if internal auditing would have been different were it not for Sawyer's leadership and publications.⁶³

Method

The primary method was an analysis of published works in the areas selected. The major themes that dominate Sawyer's work determined the areas studied. These are discussed later in the chapter. The material studied was categorized and placed in sequence. The influence of environmental factors was determined. In conducting this part of the research, information gained from interviews was used. The consistencies and inconsistencies in the material were assessed to determine a general internal auditing ideology. Any changes in ideology were analyzed for cause and effect. His ideology was traced to pronouncements and the current state of internal auditing to determine if characteristics and aspects of internal auditing today may be ascribed to the influence of

⁶³ Christopher J. Cowton, "The Hero in Accounting History: An Assessment of the Role of Biography," Accounting and Business Research (Winter 1985), p. 74.

this leader. For this purpose a timeline was used with publications and changes occurring in the profession by year. Leadership work done at the IIA was studied for lasting contribution to internal auditing in the same manner. The awards received were also used to judge the value of his contribution to internal auditing. Interviews were conducted with Sawyer's family members, coauthors, colleagues, and with internal auditing leaders.

Literature Studied

The published writings of Sawyer were studied. The articles were published in the Internal Auditor, the journal of the IIA. Sawyer's books on internal auditing were also included and most were published by the IIA. A listing of these materials is included in Appendices B and D. Information was obtained from family members and colleagues. These people were located and contacted to request an interview or written documentation of their remembrances. The IIA was a useful source of information. The unpublished material was used in the analysis where relevant as biographical or environmental information that had an impact on Sawyer's internal auditing ideology.

Areas of Research

The study begins with a biographical sketch of Lawrence B. Sawyer in chapter two. Chapter three introduces the internal auditing environment at the time Sawyer entered the profession with a brief history. These analyses help to explain the thoughts and motivations behind the writings. The remaining areas of research were determined after a cursory review of the published material and represent the themes that are repeated in the material as follows: (1)The Grandfather Dialogues, (2) The Practice of Internal

Auditing, (3) The Politics of Internal Auditing, (4) The Philosophy of Internal Auditing (5) The Professionalism of Internal Auditing. The chapters are listed in order in Table 1 that follows. The names given were actually borrowed from titles of Sawyer's articles and were suggested by Dale L. Flesher.

The Grandfather Dialogues were grouped together as these articles were written and intended to be read as a series. Many articles and books are technical in nature and were grouped under the heading of practice. Several articles have to do with gaining cooperation from the auditee or persuading management to accept proposed changes. This topic was called politics. Other writings were categorized as philosophy. Professionalism included work done to promote the profession of internal auditing such as certification, leadership, and education. His awards and IIA service were discussed in this area. Each of these themes is further described in the following paragraphs. The themes are interrelated. The Grandfather Dialogues deal with the use of modern auditing methods and are practice oriented but also include some philosophy, politics, and professionalism, with the following topics: What is internal auditing? Why people don't like the auditor. Does the auditor have to be nice? and How to become an internal auditor. The political theme relates to practice because it would be impossible to conduct an effective internal audit without the people skills and salesmanship. The philosophical theme relates to practice as well because the procedures performed relate to the purpose and function of internal auditing. All of Sawyer's themes are interrelated and all help to accomplish his overall underlying theme of professionalism. Sawyer wanted above all to promote the profession of internal auditing and raise it to a higher level of respectability and acceptance as a true profession.

Table 1

Listing of Chapter Titles Comprising the Areas of Research

1. Introduction
 2. Biographical Sketch
 3. Internal Auditing Environment
 4. The Grandfather Dialogues
 5. The Practice of Internal Auditing
 6. The Politics of Internal Auditing
 7. The Philosophy of Internal Auditing
 8. The Professionalism of Internal Auditing
-

The Grandfather Dialogues

The focus of chapter four is on the series of articles written in the form of a conversation between a grandfather and his grandson. A series of these dialogues was published in The Internal Auditor. Also a collection of these dialogues has been published as a book. This material was analyzed for its impact on the profession. The articles are mostly practice oriented as he intended to describe what it is that internal auditors do. Topics include fraud, evidence, sampling, electronic data processing, operations research, reporting, human relations, and the future of internal auditing.⁶⁴

The Practice of Internal Auditing

The Practice of Modern Internal Auditing, Sawyer's most well known text, was based on his work experience in internal auditing of almost 40 years in government and industry. In it he covers how to conduct an audit from risk assessment planning to reporting. Topics include internal control, workpaper design, evidence, sampling, electronic data processing (EDP) auditing, and fraud detection.

The Internal Auditing Handbook is also practice oriented and has been called a how-to guide. It covers management of an internal auditing department in order to meet quality assurance standards, as well as the performance of internal auditing work itself. Many of the same topics are included in Sawyer's published articles.⁶⁵ For example Sawyer's list of Ten Commandments is included in both a textbook and a journal article.⁶⁶ Topics reappear as favored themes in Sawyer's writings.

⁶⁴ A complete list of chapters from the book is included as Table 2. Table 3 lists the published articles in the grandfather series. See pages 112 and 113.

⁶⁵ See Table 4 for a listing of titles and contents of these articles, page 117.

⁶⁶ See Table 5, page 153.

In writing on technical and practice-oriented topics, Sawyer's goal was to share his work experiences with others and to improve and promote the profession. These articles and books were evaluated and are presented in chapter five.

The Politics of Internal Auditing

Chapter six presents the analysis of articles and books in the area of politics. Sawyer's ideas on human relations are included in almost everything he published including Elements of Management – Oriented Auditing and The Practice of Modern Internal Auditing. Several articles focused exclusively on getting along with people such as “The Politics of Internal Auditing”, “The Human Side of Internal Auditing”, “The Creative Side of Internal Auditing”, “The Leadership Side of Internal Auditing,” and “Janus or The Internal Auditor's Dilemma”. Ideas expressed include projecting the right image in personal interaction and communication, the conflicting forces of being both a partner with management and watchdog over management, not looking for bad people but bad systems, how the perception of the auditor can be a self-fulfilling prophesy, and the importance of using corporate culture and the hidden organization. The overall theme of Sawyer's writings on people skills is understanding and empathy. If internal auditors try to see things from the auditee's point of view, and be understanding, this will come across in their communications and the result will be increased cooperation.

The Philosophy of Internal Auditing

The Manager and the Internal Auditor: Partners for Profit explains the most progressive state of Sawyer's philosophy. Several of the published articles such as “The

Philosophy of Internal Auditing” also draw on his theory that the auditor is a partner with management, doing what they would do if they had the time and knew how.⁶⁷ The auditor should be a consultant and teacher, helping management reach organizational goals and in the end, making management look good. Every piece written by Sawyer tells how the internal auditor is more than a number checker. Therefore, another repeated theme stresses that the profession has grown into something much more interesting and exciting. Another recurring theme is one of salesmanship. Internal auditors must sell themselves, their recommendations, and what internal auditing can do for management and the organization. Internal auditors should be partners with management and an integral part of the management process. The auditor must understand the basic principles of management and check to see that they are being applied effectively. Sawyer’s ten maxims are included here and define his ideology in simple terms.⁶⁸ This conceptual theme of what internal auditing should be is analyzed and in chapter seven.

The Professionalism of Internal Auditing

Chapter eight includes the evaluation of publications such as articles dealing with how to be an internal auditor, what makes a profession, promotion of the certification program, the importance of standards, independence and objectivity, having professional skepticism, and ethics.⁶⁹ Articles on the future of internal auditing are included. His list of Ten Possibilities for the Future is presented in Table 8.⁷⁰ Several of Sawyer’s books include a discussion of the statement of responsibilities, standards, code of ethics, and

⁶⁷ See Table 7 for a list of articles, page 157.

⁶⁸ See Table 6 for a list of these sayings, page 155.

⁶⁹ See Table 9 for a list of these journal articles, page 177.

⁷⁰ Table 8 is on page 158.

internal auditing as a professional career. Also Sawyer's leadership in the IIA is analyzed. The awards granted are presented. The theme in this section is promoting the profession of internal auditing through leadership, writing, and service.

Conclusion

In chapter nine the conclusions reached in each of the above subject areas are summarized for an overall assessment of Sawyer's influence on the internal auditing profession. Consistencies found with today's internal auditing profession are presented as evidence of this influence. Analysis of the publication dates and changes occurring in the profession also indicate the degree and nature of the influence.

CHAPTER II

BIOGRAPHICAL SKETCH OF LAWRENCE B. SAWYER

Childhood and Education

Lawrence B. Sawyer was born on April 13, 1911 in Brooklyn, New York of immigrant parents. His father was a businessman who was in the paper box business when he came over from the old country. This was believed to be in Russia along the Polish border. Sawyer's mother was believed to have immigrated here from Russia as she spoke Russian. His parents met and married in this country. Very bright and self-educated, the mother read a lot and had taught herself English. She had a natural talent for writing and wrote political commentary for the local newspaper. It was a privilege that she would not have been able to enjoy in Russia. Sawyer's children remember their grandmother was a very interesting person but cold and uncaring. Their grandfather died of a heart attack suddenly when they were small and so they remember very little. It was said that he was very good in business.¹

Sawyer did not have a happy childhood and did not talk about it. He did write a short story about his upbringing. It was a required assignment for a class in creative writing. Sawyer would take college classes when he had time, just for the fun of learning. The short story described getting daily beatings from very strict parents that did not know how to show love to their children.²

¹ Personal interview with Barbara Witt and Linda Kuhns, daughters of Lawrence B. Sawyer, Sherman Oaks, California, February 9, 2004.

² Ibid.

Sawyer's parents managed a resort in the Catskills, when the Catskills was at its height as a vacation area during the thirties. Hard work, being productive, and working with one's hands were the traits Sawyer's parents wanted to instill in their children. There was not any reason to go to college. The children were expected to stay and work at the resort. Mother did the cooking, father managed, and the children waited on tables. Larry must have been ambitious to go to college against his parents' wishes. He also persuaded a younger brother to get an education.³

Sawyer put himself through school at Brooklyn College in New York taking pre-law studies. He was what people used to call a soda-jerk. He worked at a soda fountain making milkshakes through the school term. During the summer vacation he worked at the resort managed by his parents in the Catskills.

Sawyer was a very outgoing and gregarious person. In the evenings after dinner, he would play the role of master of ceremonies overseeing the entertainment, which included games, live music and dancing. His job was to get the guests interested and keep them involved. He was very good at this as he had a loud voice and theatrical style.⁴ His voice was described as resonating with a theatrical quality. There was a sense of drama about him and the way he talked.⁵ The movie "Dirty Dancing" is a story of a dance instructor who worked at a resort in the Catskills and is representative of what those times were like. There are oral histories on the area and people remember plays, comedy acts, orchestra music, dancing, etc.⁶

³ Ibid.

⁴ Ibid.

⁵ Telephone interview with Anne Graham, former editor of the Internal Auditor and author, Chicago, Illinois, April 7, 2004.

⁶ "Research Queries – People," http://www.brown.edu/Research/Catskills_Institute/queries/people.html accessed November 20, 2004, p. 1.

Larry loved acting and singing. After retiring he and his wife, Esther performed in the local theater. He was in every single play and always played the leading role. This talent came out in his professional speeches. He captivated the audience. He enjoyed being on stage.⁷ After moving to a retirement village, Sawyer had his own talk show. He would interview various residents about their careers and lives they had lived before retirement.⁸ He was comfortable on stage and enjoyed public speaking, yet did not enjoy small talk at parties. He was not a “small-talker” but was a good listener.⁹

Sawyer met his wife Esther in French class while at college. Her nickname was “Mighty Mouse”, because she was so small, only four-foot-nine inches. They fell in love and married in May of 1936. He wrote love letters to her throughout their courtship. Later he wrote poetry. There was a poem written to Esther for each Valentine’s Day, each of their anniversaries, and each of her birthdays.¹⁰

An internal audit professional associate remembers meeting the Sawyers in later years and being impressed with the love that they had for each other. “They had been married for forty years, both white headed, but it was very evident that they still had a great love and respect for each other. Larry and Esther had a capacity for making people feel comfortable. They were good listeners, good at getting people to talk.”¹¹ Everyone who knew the Sawyers recognized their unique relationship. “Larry obviously doted on Esther and she on him. To an outsider it seemed strange that she was always with him, sitting through absolutely everything, and one might have thought she should be getting

⁷ Whitt and Kuhns interview.

⁸ Telephone interview with Dr. Mortimer A. Dittenhofer, coauthor, professor, internal auditor, and friend, Washington, D.C., December 9, 2003.

⁹ Witt and Kuhns interview.

¹⁰ Examples of poetry are included in Appendix G including three poems about auditing.

¹¹ Personal interview with D. Eugene Shaeffer, former IIA Director of Education, Altamonte Springs, Florida, March 30, 2004.

bored, but she never seemed to be.”¹² Esther accompanied Larry to professional meetings, to public speaking engagements, and to meetings related to the books he wrote.

There is an interesting story about one trip that shows his love for Esther. It was an internal audit national convention at Disneyland and Sawyer was being honored. This was in 1996 and not long before Esther passed away. She was already ill and was suffering from dementia. The whole family was there with Larry and Esther and they were seated in the front row. The Institute of Internal Auditors (IIA) official asked her to introduce her family, of course not realizing that she could not remember their names. Larry stood up beside her and with no embarrassment at all told her each person’s name and then she would repeat it. Throughout her illness, Larry took care of her and cared for her with great patience and understanding. His daughters said that he lost a lot of weight and the mental strain almost killed him.¹³

It was at the Disneyland conference that Jim Scheiner, a coauthor with Sawyer, first met his family. “Larry was devoted to Esther and clearly she was his pride and joy.”¹⁴ Anne Graham who worked with Larry in later years remarked how extraordinary their relationship was, that they seemed to be so much in love.¹⁵

It was Esther’s idea that he go to law school. Her sister’s husband had enrolled and she thought it sounded like a good idea.¹⁶ Sawyer’s daughters describe Esther as the one who gave their father focus. “She was a very wise person who kind of channeled you. You are bumping the sides and she is making the channel smaller and smaller.” He

¹² Gerald Vinten, Past president IIA, UK and Ireland, professor and author, Altamonte Springs, Florida to Nina Goza, Oxford, Mississippi, March 18, 2004.

¹³ Witt and Kuhns interview.

¹⁴ Telephone interview with James H. Scheiner, Dean of the School of Business Administration, Stetson University, and coauthor, DeLand, Florida, December 12, 2003.

¹⁵ Graham interview.

¹⁶ Witt and Kuhns interview.

had finished college and was still working at the soda counter. Esther was working as an editor for a publisher of college textbooks. Money was tight during those depression times. They would save for weeks in order to have two nickels to go to a movie. During this period, he started law school.¹⁷

Sawyer went to work at the General Accounting Office (GAO) before attaining the law degree. They were expecting their first child and he needed a job. Esther never worked outside the home again and was a perfect housewife and mother. The children refer to their childhood as an “Ozzie and Harriet” upbringing. They moved close to Washington to Greenbelt, Maryland. At that time it was a community for government workers. Housing was provided that was very affordable. Larry and Esther shared a house with Esther’s sister and brother-in-law, who was also attending law school. Both of Larry and Esther’s children, Barbara and Linda, were born in Washington, D.C.¹⁸ He completed the work for an LLB degree from Catholic University in Washington, D.C. in 1941, by attending night classes as he was working full-time at the GAO. He passed the bar exam and was a member of the American Bar Association in the District of Columbia.¹⁹ Sawyer loved learning and really never stopped. Even at the age of 70 he was taking computer classes.²⁰

Parenthood and Family

The Sawyers were very loving and nurturing parents. They instilled in their children a feeling of self-worth. Both children say they could not ask for a better mother

¹⁷ Witt and Kuhns interview.

¹⁸ Ibid.

¹⁹ Leah N. Geanopulos, “And, In His Spare Time,” The Internal Auditor, (June 1984), p. 47.

²⁰ Witt and Kuhns interview.

or father. Although he was described as a strict father, neither daughter remembers getting spanked. They were taught the importance of being on time. You could be early, or on time, but never late (especially coming home from a date). Sawyer would say the best thing you can do for a child is not to break a promise. If you promised something good, you stick to it. And if you promised a punishment for something bad, you never break that promise either. And he never did break a promise to his children.²¹

Punishments were sometimes humorous. Once he told Barbara if she left the lights on in her room one more time, he would empty the contents of her closet onto the floor. She did and he did. He placed the clothes on the floor so that they spelled “ha ha”. She had to put all her clothes back up and she said she never forgot to switch the lights off again.²²

They had lots of family time in the evenings. When Sawyer came home from work, the children would get big hugs and he would give Esther a “big smack on the lips.” The parents would have a martini. Larry would read the paper while Esther was finishing dinner. At dinner he would tell the children an interesting story. They did not find out until years later that he had heard these stories on the radio every day while driving home. Sometimes after dinner they would have mock court. He was the judge, Mother was the prosecutor, and the girls were defendants or witnesses. Dinnertime was always a positive fun experience probably to encourage the children to eat as they were finicky eaters.²³

Another fondly remembered family time was the annual summer family vacation in the automobile. It would be a long drive and there would be games and singing the

²¹ Witt and Kuhns interview.

²² Ibid.

²³ Ibid.

whole way. Both parents had lovely voices and they harmonized well and knew all the words to the old classic songs from the thirties and forties.²⁴

Sawyer's daughters do not remember their father traveling with work much or working late hours. Sometimes he might work a little on the weekend but not very often. The daughters were grown before Sawyer began writing his first book. While they were young he was every bit the devoted father.²⁵ Sawyer talked about his daughters often and was proud of the people that they became as they grew older.²⁶

Sawyer had no negative qualities according to his children. His son-in-law, Harvey, felt that the only quality that could be perceived negatively was Sawyer's aversion to risk. He wanted to know something could be done before proceeding. He was a perfectionist and he wanted things done right and this could be irritating at times. Rather than take a chance that it could be right and going ahead, he would use caution and wait to be certain. Before cutting a board he would measure it twice. Whereas Harvey might measure once, or not measure at all, then have to cut another board because the first did not fit.²⁷

Work as an Internal Auditor

Sawyer worked for the GAO for 19 years beginning in 1937, the year his first child Barbara was born. Unemployment was high and this was the only work available. He did not like accounting or working with numbers and he was not happy at the GAO.²⁸ The internal auditing at the GAO, as it was done at that time, motivated Sawyer to want

²⁴ Ibid.

²⁵ Ibid.

²⁶ Graham interview.

²⁷ Witt and Kuhns interview.

²⁸ Ibid.

to change the profession with his writing and speaking.²⁹ This being the case, no explanation could be found as to why he stayed at the GAO so long. Until the war, unemployment was very high and it may have been difficult to find other work. The GAO was really just a voucher checking organization at the time. Expenditures were checked to be sure they were allowable and this required legal research of laws and regulations. During the war a lot of manpower was needed to audit all the government contracts. It was not until after the war that there was any move toward operational auditing in government.³⁰ Sawyer's work was mainly number checking and did not require his legal training.³¹ This type of auditing is in sharp contrast to the type of auditing that Sawyer wrote about which involved consulting with management on operational efficiency and effectiveness in addition to checking for financial accuracy.³²

In 1943, two years after his second child, Linda, was born, he requested a transfer. The children were frequently ill with colds and pneumonia and the drier climate out west was believed to be better for their health. Esther's parents had already moved to California and encouraged them by providing the Sawyers a place to stay until they found their own home. Larry's parents also moved and leased a resort in Ontario, California.³³

Sawyer did not go to war because he was needed at home. His work at the GAO was important to the war effort.³⁴ There is no record of the work that was done for the GAO. But right after the move to California, the daughters remember him working away from home some and that some of the work during the war was done at Hughes Aircraft

²⁹ Renee Jaenicke, IIA member, Los Angeles, California, to Nina M. Goza, Oxford, Mississippi, February 18, 2004.

³⁰ Roger R. Trask, GAO History, 1921 - 1991, (Washington, D. C.: United States General Accounting Office, 1991), p. 11.

³¹ Witt and Kuhns interview.

³² Ibid.

³³ Ibid.

³⁴ Ibid.

Company.³⁵ He probably audited many of the war contracts. Hughes was known to have developed several aircraft for the government during the war years including the Hughes H-4 Hercules, better known as the Spruce Goose, and the XF-11 photoreconnaissance plane.³⁶

Dr. Fredric Mints, former audit manager for Lockheed Aircraft Corporation (Lockheed) and retired professor now in his nineties, remembers meeting Sawyer almost fifty years ago.

I first met Larry sitting on a bench in the lobby of the Roger Young auditorium in downtown Los Angeles. We met because I had advertised for people. I was hiring at the time. . . And I agreed to hire him as a senior auditor. At that time we had a staff of about 30 to 35 and Larry was just another new hire at the time. . . I put him to work on various assignments, getting him accustomed to our way of doing things. But he soon became one of my top people I think.³⁷

He went to work for Lockheed in Burbank in 1956 and worked for them 18 years. Paul Heeschen had been with Lockheed for four years in 1956 and Larry was assigned to work with him. They became close friends and had a close family relationship as their wives and children also became friends.³⁸ Another friend remarked that “He (Heeschen) was probably the closest to Larry of all the people” (excluding family)³⁹. They worked under the direction of Mints as audit supervisors. When Mints retired, Heeschen became the manager. They were all under the oversight of the corporate audit director, C. N. Inman. Sawyer gave credit to these gentlemen in the acknowledgements of his first book as follows. “I owe a debt of gratitude to three mentors who demonstrated abundantly and

³⁵ Witt and Kuhns interview.

³⁶ http://www.absoluteastronomy.com/encyclopedia/H/Hu/Hughes_Aircraft.htm.

³⁷ Personal interview with Frederic Mints, retired professor and author, Irvine, California, February 10, 2004.

³⁸ Personal interview with Paul Heeschen, retired professor and author, Irvine, California, February 10, 2004.

³⁹ Dittenhofer interview.

successfully to me how to practice the difficult art-science of auditing for management: Paul E. Heeschen, Charles N. Inman, and Dr. Frederic E. Mints.”⁴⁰ Mr. Inman used his initials as his name professionally but was known to friends as “Bud”.⁴¹

Heeschen remembers that Sawyer kept the “yellow book” (the audit standards for government audits) and would occasionally refer to it in his work at Lockheed. Also, Sawyer was extremely organized. This could have been something he picked up from his governmental work or his legal training. One thing he learned from the GAO was how senseless it was to pick on every little thing. He learned to look at the big picture rather than focus on little things that were not material. At the GAO Sawyer had reported every deficiency no matter how small.⁴²

Early on in his Lockheed career he studied accounting at the University of California at Los Angeles and became a registered public accountant in the state of California. Larry was a fast learner and soon progressed to supervisor where he would be in charge of a group of five to six junior auditors.⁴³

People really enjoyed working and being assigned to jobs that Larry supervised. He was a good boss and a good mentor. And if you talked to some of his students from the classes that he taught, they would say that they really learned a lot. He was good at explaining the basics.⁴⁴

Sawyer never progressed above audit supervisor to manager or director. It is the feeling of one person who knew Sawyer that this was because Sawyer did not play political games for power. It was also said that there was an unwritten criteria at the time that in order to get to the top, you probably had to come from a CPA firm and Larry did

⁴⁰ Lawrence B. Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management (New York: Institute of Internal Auditors, 1973), p. vii.

⁴¹ Heeschen interview.

⁴² Ibid.

⁴³ Mints interview.

⁴⁴ Heeschen interview.

not.⁴⁵ In fact he did not even have an accounting degree. Perhaps he loved being in the middle of things, working with the staff auditors and the employees being audited out in the organization rather than managing from a desk. To progress upward would have meant having less actual contact with the auditing. His lack of upward mobility probably prohibited him from serving in a higher capacity in the IIA. It would be expected that an officer of a national professional organization would have working experience at the highest level of that profession. Per C. N. Inman, Sawyer just did not have the experience needed.⁴⁶

From review of the early issues of the Internal Auditor, the journal of the IIA, it is obvious that the Lockheed organization was very active in promoting the organization. There were many articles published that were authored by Lockheed internal auditors. Their people were very active in the national organization. For example, Fredric Mints served as director, secretary, member of the Board of Regents and editor of the Internal Auditor. The Board of Regents was responsible for writing the Certified Internal Auditor (CIA) exam. Paul Heeschen served on the Board of Regents and in a separate capacity as a director. C. N. Inman served as research committee chair, director, vice president, and ultimately president. Other Lockheed internal auditors that made a difference included J. A. Mosher, Herbert G. Kimball, William J. Lehmann, and Arthur H. Kent. Mosher, served as vice president and president. Kimball served as president of the Los Angeles chapter in its second year, in 1944. He is credited with getting things moving toward operational auditing at Lockheed. Many of the ideas that Sawyer wrote about came from

⁴⁵ Shaeffer interview.

⁴⁶ C. N. Inman, IIA past president, Altamonte Springs, Florida, to Nina M. Goza, Russellville, Arkansas, September 18, 2005.

Lockheed and originated with Kimball.⁴⁷ He also served as director at the national level. William J. Lehmann served as local chapter president and at the national level as vice-president and then president. Arthur H. Kent wrote many articles including the first ever published on operational auditing.⁴⁸ He served as director and as chair of the research committee. Kent was one of the few members to be given an honorary lifetime membership to the IIA.⁴⁹ And there were others. Even the controller, who was not an internal auditor, published in the Internal Auditor. Lockheed had a long history of activity in developing the profession of internal auditing since about 1940.⁵⁰

Sawyer became a member of the IIA in 1957, one year after joining Lockheed. He remained active in the local chapter all his life and served as president in 1966.⁵¹ The employees were not required to join. They were encouraged. For example the corporation would pay all expenses incurred for attending meetings and the national conference including registration fees, hotel and transportation. When Sawyer, Mints, and Heeschen served on the Board of Regents, they would attend meetings all around the country. The meetings were held on Saturday and Sunday, but Friday and Monday were travel days. Lockheed was very supportive of the employees that participated in the IIA by permitting time away from work.⁵² They were also supportive of the professional

⁴⁷ Heeschen interview.

⁴⁸ Dale L. Flesher, The Institute of Internal Auditors: 50 Years of Progress Through Sharing (Altamonte Springs, Florida: The Institute of Internal Auditors, 1991), p. 82.

⁴⁹ Ibid.

⁵⁰ Lockheed Aircraft Corporation, Sampling Manual for Auditors (Orlando, Florida: Institute of Internal Auditors, 1967), preface.

⁵¹ Lawrence B. Sawyer, "The Lawyer, the Statistician and the Internal Auditor," The Internal Auditor (Summer 1967), p. 9.

⁵² Heeschen interview.

development of their auditors by using IIA training seminars and a great deal of in-house training.⁵³

Heeschen remembers the internal audit environment at Lockheed with these comments.

There were some innovative things going on in those times. We got real involved at Lockheed in trying to devise new methods. For example Lockheed was one of the first organizations to go into the engineering organization and to audit. What we were doing is saying, OK, the same type of administrative principles apply to the design effort as they do to the accounting department. You have to have controls over quality, cost, and schedule.⁵⁴

Lockheed was at the forefront with operational auditing. The internal auditing department was one of the first to report to the board of directors. This is recognized today as essential for independence of the internal auditor. It was common in the 1940s and 1950s for the head of internal audit to report to the controller or vice-president of finance. At Lockheed a lot of effort was put into reporting and how not to antagonize the auditee to increase acceptance of the ideas communicated in the reports.⁵⁵

The work atmosphere included deadlines and at times high pressure to get the work done, but the auditors did not feel stressed. They did not normally work long hours or take work home. Sometimes under certain circumstances, an auditor might choose to work extra time but it was voluntary and there was not that type of pressure. The work environment was not as harried as in public accounting. They would sometimes play bridge at the office. And there was a personal relationship among employees. "One supervisor was known for pulling out pictures of his wife and kids and talking about his

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ Personal interview with C. N. Inman, past president of the Institute of Internal Auditors, Altamonte Spring, Florida, March 29, 2004.

family when the managers (getting audited) would rather he just get on with the audit sometimes.”⁵⁶ When dealing with the employees in an audit, Larry was friendly, courteous, sociable but business like.⁵⁷

On the job the only differences of opinion among the auditors had to do with the audit report, what should go in and what should be left out and how strongly it was to be presented. There was always much discussion about the report writing. “Larry’s greatest contribution (in that regard) was his ability to tell people why something was not (right), not just that it was not right, but why. And he was very adept in his ability to explain to people.”⁵⁸ This ability could have come from his legal training. He had a way of presenting arguments very logically.⁵⁹

According to Mints no book or article about Larry would be complete without Esther. She typed and edited manuscripts for Larry.

But she was much more than that. She was his primary promoter. The first time I met Esther, she immediately proceeded to tell me how wonderful her husband was and why I should promote him. I remember once Lockheed had some kind of a dinner (a Management Club dinner/dance). And we were all seated at a table in the back of the room and Esther had disappeared. Finally someone said there, she is up on the stage. She is talking to the management. They were sitting at the head tables and she was going around telling them how wonderful Larry was.⁶⁰

Heeschen says that story goes around because “What she did is she cornered one of the founders of Lockheed, Cortland Gross, up at that table.”⁶¹ “She was an interesting woman in her own right in many respects, but directed her entire resources to promoting

⁵⁶ Heeschen interview.

⁵⁷ Ibid.

⁵⁸ Heeschen interview.

⁵⁹ Dittenhofer interview.

⁶⁰ Mints interview.

⁶¹ Heeschen interview.

Larry.”⁶² She was a very gracious lady, a wonderful person.⁶³ She was so outspoken that some remember Larry affectionately called her “Mighty Mouth”⁶⁴, although his daughters say her nickname was “Mighty Mouse” because she was short.⁶⁵

Early Publication Work

Sawyer published his first article in The Internal Auditor in 1964, “The Anatomy of Control.” This article about internal control won the J. B. Thurston Award for writing excellence. Other articles published in The Internal Auditor and written while at Lockheed include “Purifying the Audit Report,” in 1969, and “Internal Control – the Internal Auditor’s ‘Open Sesame’,” in 1970, and a series of articles entitled The Grandfather Series. These articles were written in the form of a conversation between a grandfather and grandson about internal auditing, professional qualifications, gathering evidence, fraud, reporting and more. There were two to four of these short articles published per year in the early 1970s. These articles earned Sawyer the title Grandfather of Internal Auditing.

In 1967, Sawyer worked as associate editor on a bibliography of internal auditing literature with Fred Mints, his boss at Lockheed and editor on the project. It covered the period 1950 through 1965. In the publication, William S. Smith, President of IIA, expressed appreciation to those who participated in its preparation and Sawyer was named as an outstanding contributor.

⁶² Mints interview.

⁶³ Dittenhofer interview.

⁶⁴ W. E. Thompson, past president of the Institute of Internal Auditors, Altamonte Springs, Florida, to Nina M. Goza, Oxford, Mississippi, April 9, 2004.

⁶⁵ Witt and Kuhns interview.

Another project in 1967 was the Sampling Manual For Auditors written by Lockheed internal audit staff and donated to the members of the IIA with a distribution of over 10,000 copies. Sawyer edited this and the second book published in 1970, entitled Supplement to Sampling Manual For Auditors. Sawyer planned and coordinated the work of the authors on these projects and also personally wrote much of the material.⁶⁶ It was the original plan for the research and writing to be done by internal auditors at the three Lockheed divisions. Mints recognized the need to edit the material due to the varied style of the three divisions and different people involved. It was Inman's idea to do the research for Lockheed's own use. Then when it was done he approached their CFO and the decision was made to make it available to the profession. Lockheed's CEO presented the book to the IIA at a meeting on the west coast. This was evidence of the interest of the Lockheed top management in the internal auditing profession.⁶⁷ So it was in association with his work at Lockheed that Sawyer got his start in writing about internal auditing.

According to Sawyer's family, he hated statistics.⁶⁸ Yet he studied the subject, edited these books, and wrote other materials on the topic. In 1967 and 1968, he published two articles on the topic: "The Lawyer, the Statistician and the Internal Auditor," and "Simple Sampling, How to Stop Worrying and Learn to Love Statistical Tables." The latter article won the IIA's Thurston Award for writing excellence.

⁶⁶ Lawrence B. Sawyer, Supplement to the Sampling Manual for Auditors (New York: Institute of Internal Auditors, 1970), preface.

⁶⁷ Inman interview.

⁶⁸ Witt and Kuhns interview.

Later in 1971, Sawyer wrote an article to explain statistics to his teenage grandson. That article, one of a series that has come to be known as The Grandfather Series, was later used as training material for the Navy internal audit staff.

He became quite the expert conducting seminars for the IIA on statistics. He had been teaching a course in sampling at one of the colleges and had written his own material. Those materials were then used in the IIA seminar as well. He was very confident in that area. It was not the most popular seminar offered. At that time statistical sampling was not used much.⁶⁹ It was a tool that could be used to increase the credibility of the profession. He always promoted using the latest in technology and advanced methods. He knew that internal auditors would have to understand statistics before they would start to use these methods in their work. So he wrote about statistics, and “he made it so that everybody could understand it. That was always his aim, from the time that he (first) started writing.”⁷⁰

Sawyer chaired the International Research Committee in 1969 through 1971. This was the period when the Statement of Responsibilities was revised.⁷¹ He explained the process and the changes in an article published in the Internal Auditor in 1971, “Observations on the 1971 Revision of the Statement of Responsibilities of the Internal Auditor.” There was an attempted revision in 1967 that was met with opposition. Under Sawyer’s leadership the obstacles were overcome.⁷²

⁶⁹ Shaeffer interview.

⁷⁰ Witt and Kuhns interview.

⁷¹ Lawrence B. Sawyer, “Observations on the 1971 Revision of the Statement of Responsibilities of the Internal Auditor,” The Internal Auditor (September, October 1971), p. 9.

⁷² Lawrence B. Sawyer, “Annual Report of the International Research Committee, 1970-1971”, from The Annual Business Meeting.

Sawyer served in an international capacity as Director at Large during 1971 through 1974.⁷³ It is not known why Sawyer did not serve as national officer for the IIA. It could be the same reason that he never progressed to the director level in his work. As mentioned earlier, he did not have public accounting experience and did not play politics. Or it could be that he enjoyed writing and speaking so much that he preferred to contribute in that way. Considering the number of books, articles, and speeches over the years, it seems that he put everything towards these efforts and he probably did not have the time or energy to pursue national leadership.

In 1973, he was grandfathered in as a CIA, given the 4th certificate awarded.⁷⁴ These special certifications were awarded on the basis of experience rather than by examination and were only given for a limited time immediately before the beginning of the examination for certification.⁷⁵

In 1973, Sawyer published “Just What is Management Auditing?” It included his famous ten commandments for internal auditing. Sawyer was honored with the Bradford Cadmus Memorial Award in 1973. This is IIA’s most prestigious award given for outstanding contribution. The Bradford Cadmus Memorial Award, established by The Institute, is a tribute to the memory of Bradford Cadmus, author, educator, researcher, and the first managing director of The Institute. It officially recognizes those individuals who have made outstanding contributions in research, education, publications, or other developments and activities in the field of internal auditing. Other winners include past

⁷³ Victor Z. Brink, Foundations for Unlimited Horizons, The Institute of Internal Auditors, 1941-1976 (Altamonte Springs, Florida: The Institute of Internal Auditors, 1977), p. 144-145.

⁷⁴ “In Memoriam,” Internal Auditor (December 2002), p. 76.

⁷⁵ Brink, p. 72.

IIA presidents, Victor Z. Brink, and Fredric E. Mints to name a few.⁷⁶ In the words of Sawyer, “The Cadmus Award, to me, was like the Nobel Prize for advancing some significant cause. Certainly, no Nobel Prize winner ever felt any greater pride than I for this ultimate accolade by my peers – the cherished Bradford Cadmus Memorial Award.”⁷⁷

One thing Sawyer is known for is his comment that nothing happens until you sell something. It is a recurring theme in his writings that was discovered due to the Sawyers’ love of travel. On a trip to Tahiti, Sawyer was talking to someone he had just met that happened to work in sales. The man felt that selling was important because nothing in business actually happened until something was sold. Sawyer was telling the man about the problems internal auditors had, including the distrust and dread they faced from the personnel being audited. In their discussions, Sawyer realized that nothing will get accomplished until internal auditors sell their ideas. From this a whole philosophy was developed.

He would help them (management) to do a better job. He would not report them, he would report problems. But he would work with them to correct the problem and report that there had been this problem but that it was already corrected by management. He would make them see that he was on their side by making them look good rather than bad. And sell himself as a consultant in the process. He wanted to make them feel glad to have him on their side.⁷⁸

A friend remembers hearing Sawyer explain this selling idea at a conference the Sawyers attended a few days after the trip. He said that he and a few of the other people at the table were not convinced and thought it was a far stretch. With many products, a lot of work must be done before a sale is ever made, but Larry was persistent with his idea.

⁷⁶ Flesher, p.157-158.

⁷⁷ Flesher, p. 143.

⁷⁸ Witt and Kuhns interview.

These skeptics were really surprised when in a few days time at a meeting, “Larry had an hour-long presentation on the fact that all of the audit work in the world meant nothing if the recommendations were not sold.”⁷⁹

In 1973, Sawyer published his first book, The Practice of Modern Internal Auditing. According to Victor Z. Brink, this was a monumental how-to guide to the practice of internal auditing.⁸⁰ This book earned Sawyer the title of Father of Modern Internal Auditing, which at times is shortened to just Father of Internal Auditing. Sawyer wrote many books and articles on the topic, which is also called operational auditing.

He might not have gotten the distinction had he used the term operational auditing in the title. Although Sawyer wrote books and articles on the topic of operational auditing, it was Frederic Mints who has been given credit for coming up with the term, operational auditing. Mints said that Arthur H. Kent should get the credit. They were working together on a speech that Mints was to give on the topic of audits of other operations in the aircraft industry. They were brainstorming to shorten the title and came up with Operational Auditing in the Aircraft Industry and the term was born. Neither one wanted to take credit for its origination.⁸¹ Kent did publish the first journal article on the topic, “Audits of Operations”, in The Internal Auditor, in 1947.⁸²

Mints said that this book, The Practice of Modern Internal Auditing, was Larry’s contribution to the growth of the internal auditing profession. “He eventually wrote the first book since Brink’s, and that was something sorely needed.”⁸³ What Mints meant by ‘eventually’ is that it had been 32 years since Brink published his book, Internal

⁷⁹ Thompson to Goza.

⁸⁰ Brink, p. 69.

⁸¹ Mints interview.

⁸² Flesher, p. 82.

⁸³ Mints interview.

Auditing, in 1941. A second edition of Brink's book had been published in 1958 but nothing of significance subsequently. Sawyer's son-in-law encouraged him to write this book saying, "Larry, I believe you've got a book in you."⁸⁴

Sawyer also received encouragement from Mints and Heeschen.⁸⁵ Mints approached C. N. Inman, the head of internal audit at Lockheed, for permission to use Lockheed's internal auditing policies and procedures and to see if there would be any opposition to the book. Sawyer wanted to write a textbook to get internal auditing into the college classrooms. Inman said there were no objections. This was another way that Lockheed could help promote the internal auditing profession, living up to the IIA motto "progress through sharing".⁸⁶ This had been a continuing theme of the IIA for years.

"One of the first things Sawyer did was to get the legal protections in the form of copyrights. So it was well planned from the beginning. And his wife did a tremendous amount of work for him."⁸⁷ It took two and one-half years of writing on the weekends, on lunch-hours, and late at night to get it done. He was still actively employed at Lockheed working 40-hour weeks.⁸⁸ There was evidently no time while on the job at Lockheed to work on the book. Paul Heeschen, audit manager at Lockheed said "Larry would never not devote adequate time to Lockheed." The writing would have had to come second.⁸⁹

Also there was published in a separate volume, Outlines, Case Studies, and Problems to Accompany the Practice of Modern Internal Auditing. It was intended to be

⁸⁴ Witt and Kuhns interview.

⁸⁵ Mints interview.

⁸⁶ Inman interview.

⁸⁷ Ibid.

⁸⁸ Geanopulos, p. 47.

⁸⁹ Heeschen interview.

a companion to the text for the student. The text did not have any of the end-of-chapter exercises and review materials that are normal for college textbooks. The book was not only designed to be a textbook. It was also intended to be a resource for the practicing internal auditor.⁹⁰ Additional materials were published separately for the college professor in the volume entitled Internal Auditing Instructor's Guide to Accompany The Practice of Modern Internal Auditing: Appraising Operations for Management. Mints coauthored the instructor's guide. He remembered urging Sawyer to include extra materials for students and instructors as Brink's book did not have these extra materials that would be useful in the classroom. He remembered many long hours were spent on Saturday mornings helping Sawyer to write the classroom materials.⁹¹

Much of the material for the book came from Sawyer's work experiences over the years. Of course having worked for Lockheed since 1956, much of the information reflects Lockheed's internal audit procedures. But having worked there for so long, Larry would have participated in the development of those procedures. For example, under the leadership of C. N. Inman, a method of categorizing deficiencies by the root cause was developed. This method is explained and illustrated in the book. Larry participated in developing this system.⁹² The book is not based entirely on Lockheed. In the acknowledgments of the book, Sawyer gave recognition to thirty-one organizations from which examples were drawn.

Sawyer also acknowledged several expert internal auditors who reviewed the manuscript.⁹³ D. Eugene Shaeffer, former IIA Director of Education remembers

⁹⁰ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. vii.

⁹¹ Mints interview.

⁹² Heeschen interview.

⁹³ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. xi.

reviewing the manuscript with his boss at the IIA, Stuart C. Dew, who is recognized in the preface. Per Shaeffer, Sawyer got input from auditors that were employed by corporations at the forefront and doing new things in internal auditing. Shaeffer had many discussions with Sawyer as he was in charge of writing and coordinating new material for the IIA educational seminars. Larry gave him ideas and names of people to contact for more information. So there was an on going exchange of information. The fact that Sawyer knew about new innovations and who to call is further evidence that information for his writings did not come exclusively from Lockheed. Progress through sharing is and was the IIA's motto and Larry practiced it and was dedicated to it. It was a two-way street as he was also always willing to share information with others, like Shaeffer.⁹⁴

Retirement Writing, Speaking, and Service

In 1974, Sawyer retired and offered his services as a consultant. It was during retirement that Sawyer did most of his writing and public speaking and called himself a "late bloomer." When he was not on the road with a seminar, he began his day with a two-mile jog at 6:00 in the morning. He said this was when he could really think and the ideas would come to him "unbidden, uncalled-for, like water from a spring." Talking about his writing he said, "I read all my work out loud. It's the flow of a piece that captures the attention and keeps it."⁹⁵

During Sawyer's retirement he published 28 more journal articles. He won the J. B. Thurston award four times over the years, more than any other author. That is not

⁹⁴ Shaeffer interview.

⁹⁵ Geanopulos, p. 47.

surprising as beginning in 1967, with only a few exceptions, Sawyer published at least one article per year for more than thirty years. In fact, through 1999, the year his last article was published, Sawyer wrote more articles than any other author in the history of the Internal Auditor. No one else came close to his total of 44 articles.⁹⁶ The second most productive author was Marshall B. Romney with 15 articles. Prior to 1964, Arthur H. Kent published the most with a total of 13 articles. In addition to winning the Thurston award four times, Sawyer was a runner-up three times. The top five articles that were not selected as a Thurston winner, are acknowledged with an Outstanding Contributor Award.⁹⁷ Sawyer won three of these awards.⁹⁸ Some of Sawyer's articles are still being used today by the IIA in a continuing education course entitled Tools and Techniques for Internal Auditing. The articles are related to fraud detection and internal audit basics.⁹⁹

The public speaking part of Sawyer's career really began with retirement. He was a great performer. When giving a speech, he did not just speak, he was on stage, he gave a performance. He knew how to hold the audience.¹⁰⁰ "He worked on it. He was well organized. (He gave) very valuable messages. So he did a first rate job in that respect."¹⁰¹ The subject material was taken from the journal articles and book publications.¹⁰² Typed speeches or notes for the presentations do not seem to exist apart from the publications. He spoke in many foreign countries in Europe, Asia and South

⁹⁶ See Appendix C for a list of these articles.

⁹⁷ See Appendix F for a list of award winning articles.

⁹⁸ Lawrence B. Sawyer and Mortimer A. Dittenhofer, Sawyer's Internal Auditing, The Practice of Modern Internal Auditing, 4th Ed. (Altamonte Springs, Florida: The Institute of Internal Auditors), p. xxi.

⁹⁹ Personal interview with Stacy M. Mantzaris, IIA Administrator, Altamonte Springs, Florida, March 30, 2004.

¹⁰⁰ Heeschen interview.

¹⁰¹ Inman interview.

¹⁰² Ibid.

Africa. In poems written to Esther in 1976, just two years after his retirement, he mentioned 35 cities that they had visited.

Sometime early in his retirement while on a speaking engagement in Canada Sawyer suffered a heart attack. Inman remembers being worried about the fast pace of Sawyer's retirement and commenting to Heeschen "Why doesn't he slow down, you know he is going to kill himself."¹⁰³ He did in fact slow down after that and had many more years of working, traveling, writing and speaking.

A group of Lockheed internal auditors stayed close after retirement. They would have a monthly poker night. Prior to the event, a topic of discussion was selected such as methods of selecting Supreme Court Justices, or local government propositions that were on the ballot. They would have a debate on this topic prior to the poker. Sawyer always researched the issue and came well prepared to back up his position. He was just as enthusiastic about these other topics as he was internal auditing.¹⁰⁴

The first book to be published during Sawyer's retirement was in 1974. The IIA published the book, Modern Internal Auditing, What's It All About? The Grandfather Dialogues. It contained a chapter for most of the twelve articles that had appeared in the Internal Auditor in the Grandfather Series during the years 1970 through 1974.¹⁰⁵ The book included ten additional chapters.¹⁰⁶ It is not known why the additional chapters were never published in the magazine. No records were kept that would indicate whether

¹⁰³ Ibid.

¹⁰⁴ Heeschen interview.

¹⁰⁵ See Table 2, p. 112.

¹⁰⁶ See Table 3, p. 113.

the articles had been submitted but rejected or perhaps not submitted for some reason. This matter is discussed further in Chapter 4.

The articles were very basic as they were written to explain internal auditing to a teenage grandson. They were written in the form of a conversation with the grandson asking questions answered by the wise grandfather. Not everyone liked them. There were some letters to the editor complaining that the style was not appropriate for a professional journal.¹⁰⁷ There were a lot of people that did like them. It was from this series that Sawyer earned the title Grandfather of Internal Auditing. “If you want to understand Larry and what his philosophy was on internal auditing these are very descriptive.”¹⁰⁸ They are useful as an introduction to internal auditing.¹⁰⁹ And they are easy to read. Training on the basics is important because 60 to 65 percent of the profession is represented by management trainees. They come from other areas of the company and are slated to return in three to five years.¹¹⁰

In 1974, Sawyer again partnered with Mints to write a review course for the CIA examination. They also wrote a separate discussion leader’s guide to accompany the review course. There was a tight time deadline for the project and they each worked separately in the evenings, then would have discussions and edit each other’s work when they met on the weekends.¹¹¹ They were acknowledged for this accomplishment by Brink in his history of the IIA.¹¹²

¹⁰⁷ For a sample of this style of writing and comments from readers, see Appendix J.

¹⁰⁸ Heeschen interview.

¹⁰⁹ Graham interview.

¹¹⁰ Personal interview with Basil Pflumm, Institute of Internal Auditor Administrator, Altamonte Springs, Florida, March 29, 2004.

¹¹¹ Ibid.

¹¹² Brink, p. 73.

In 1975, Sawyer was appointed to the professional standards committee and the first set of professional standards were issued in 1978.¹¹³ It was while working on this committee that Sawyer and Mortimer Dittenhofer first became acquainted. They became and stayed close friends over the years and would later coauthor Sawyer's Internal Auditing. Dittenhofer describes him as gregarious, with lots of good friends, a great guy, very cheerful and optimistic. "His approach was that we can do anything if we can work it out. I think this is probably why we were so successful in so much of our work."¹¹⁴ Dittenhofer described him as a conformist in how he dressed, which was always appropriate to the occasion. He was quick on his feet, adaptable, never embarrassed or at a loss for words. He was easy to get to know, yet there were parts of him that were definitely private.¹¹⁵

Sawyer and Dittenhofer both served on the IIA board of regents in 1975-76.¹¹⁶ It has been said that this was the first board of regents. Actually the board was first formed in 1974. The chairman died during that first year and several members dropped out and were replaced. Most of the board continued and so in that regard it could still be considered the first board of regents. The job of this board was to oversee the preparation, administration and grading of the CIA examination. The first exam was administered in 1974.¹¹⁷ Dittenhofer describes these early meetings, which were once every two months for three days, as follows:

The first Board of Regents meetings were almost social affairs, we brought our wives and we met in various places all over the country, matter of fact, all over the world, we had some international meetings as

¹¹³ Lawrence B. Sawyer, "A Mini-History of The Standards," Internal Auditor (June, 1988), p. 25.

¹¹⁴ Dittenhofer interview.

¹¹⁵ Ibid.

¹¹⁶ Flesher, p. 45.

¹¹⁷ Ibid.

well. So we got to know each other quite well and our wives got to know each other, and it was when the Institute was not very large and there was a lot of personalities within the Institute itself. It was a very congenial operation although during the business session especially the board of regents sessions, it could be very bloody because if you did not agree with someone, the only way you could prevail was by being very specific about why you felt you were right and the other person was wrong. But we ended up in the evenings very friendly and Larry always did quite a bit of singing in our social meetings following the professional meetings.¹¹⁸

Three of Sawyer's award-winning articles were published around this time.

"Tomorrow's Internal Auditor" and "Management Fraud: The Insidious Specter" in 1978 and 1979. Both won IIA's Thurston Award for writing excellence. In 1980, he was honored as an outstanding contributor for "Janus Or The Internal Auditor's Dilemma".

Sawyer was also a college professor. He taught internal auditing part-time at California State University (Cal State) and at University of California at Los Angeles (UCLA). Mints had retired, got his Ph.D. and was teaching full-time at Cal State.

Sawyer was teaching an extension course at UCLA. Mints persuaded Sawyer to come to Cal State and work with him to develop the first accredited class in internal auditing.

Sawyer recommended Heeschen to take over the teaching at UCLA.¹¹⁹ There was a good spirit of camaraderie and graciousness among the Lockheed internal auditors. They believed in helping each other in their careers.¹²⁰

Sawyer developed a course in internal auditing that was marketed through Penton Learning Systems. These were three-day seminars done on the topic of operational auditing. When the demand was too great and he could not keep up he brought Heeschen in to help conduct these seminars.

¹¹⁸ Dittenhofer interview.

¹¹⁹ Heeschen interview.

¹²⁰ Ibid.

Another similar instance was when the IIA wanted Sawyer to write a book titled Internal Auditor's Handbook. Sawyer did not have the time to tackle the task but said he would do it if he could have some help. He asked Heeschen to coauthor. Heeschen remembers it as a wonderful experience. It was published in 1988. Sawyer gave others opportunities to benefit from things in which he was involved. It was not just for friends; on the job Sawyer gave of his time to the less experienced staff members. He would help with audit programs and with writing reports. He spent a lot of time with people, willingly.¹²¹

The Manager and the Modern Internal Auditor: a Problem Solving Partnership was published in 1979. This began a prolific period of book publication for Sawyer. During the next nine years he would write a book or continuing education course every 13 and 1/2 months on average. In 1981, the second edition of The Practice of Modern Internal Auditing was published. Elements of Management-Oriented Auditing was published in 1983. Internal Auditor's Handbook came out in 1984. Other books were published as materials for continuing education. For example, Sawyer edited the Instructor's Guide for a Course in Audit Sampling For Difference and Ratio Estimation in 1981. (This item is not included in the average as he did not write it.) The course entitled Sawyer on Internal Auditing was published in 1983. This included instructor's book, participant's book, and a set of VHS video tapes. The Student Notebook for a Self-Study Course on Corrective Action on Audit Findings was published in 1985. In 1987, another series of four VHS video tapes with all the printed materials was published entitled Sawyer on Audit Supervision. The videos in these series consisted of skits that were written, produced, and directed by Sawyer and featured him in the leading role of

¹²¹ Ibid.

audit director. The period ended in 1988 with the 3rd edition of his practice book. It was coauthored with Glenn Sumners and given a new title, Sawyer's Internal Auditing. Even though he slowed his pace, he did not stop writing. He would later publish new editions of two of these books and another 16 journal articles and he continued to speak and conduct seminars.

The 40th international conference of the IIA was held in Phoenix, Arizona in 1981. Sawyer gave the keynote address. The title was "Auditing Everything Under the Sun". It was about how the internal auditor can do much more than check financial information.

The entertainment for one evening included a famous dance duo from the Lawrence Welk Show. The performers asked for volunteers to come up on stage and dance with them. It was well known that Larry and Esther were good dancers and some of the group pushed them up on stage to be the representatives from the internal auditing conference. The man was going to introduce them and began to ask their names. Larry did not wait around for the introductions, as an observer remarked, "And Larry grabs this girl and away they go. He had a good time every year."¹²²

In the early 1980's Sawyer's seminar on audit management was used by the Air Force internal auditing team for internal training. Mr. Basil Pflumm, previous Air Force auditor manager and IIA administrator, went through the training first and thought that it was pretty good and recommended it for the audit managers at the Pentagon.¹²³

He was wonderful, especially as a teacher. I have seen him speak on occasion and he came across as a person with a broader knowledge. He was one of those JD guys, so he did have a broader background about things than just the profession. When he gave a talk, it was rarely from

¹²² Inman interview.

¹²³ Pflumm interview.

internal auditing (alone). He would take something from philosophy or other disciplines and bring it in.¹²⁴

In 1984, Sawyer was conducting at least two seminars per month. He gave more than 100 speeches and 186 seminars during his career.¹²⁵ He was a sought after speaker. “If there was going to be an Institute conference, three years from now, they would be today, trying to get Larry on their program, because he was a draw.”¹²⁶ He used his theater experience to enhance his talks about internal auditing topics so that they were never dry. They were always lively and understandable by anyone who might hear him speak (not just by internal auditors).¹²⁷ Examples include the keynote speech at IIA’s Western Area Conference in Phoenix in September 1977, a speech at the 1978 Touche Ross/ University of Kansas Symposium in Lawrence, Kansas along with Victor Z. Brink, the keynote address at the 40th international conference of the IIA in Phoenix, Arizona in 1981, and the keynote address at the IIA regional conference for Australia and New Zealand in 1983.¹²⁸ The speech given jointly with Victor Z. Brink was interesting as Brink talked about the past, present and future of the profession and Sawyer’s speech was the discussant’s response. The speeches of both men were published in The Internal Auditor.¹²⁹

Bill Thompson, a former IIA president, remembers an example of how Larry made his speeches interesting.

I was constantly intrigued by Larry’s theatrical abilities. He told me on several occasions of his love of amateur productions and he used his skills ‘on the boards’ in his speaking. He was much more dramatic in delivery

¹²⁴ Ibid.

¹²⁵ “In Memoriam,” p 76.

¹²⁶ Heeschen interview.

¹²⁷ Graham interview.

¹²⁸ Flesher, p. 121.

¹²⁹ Lawrence B. Sawyer, “Internal Auditing Yesterday, Today, and Tomorrow,” The Internal Auditor (December 1979), p. 23.

that almost anyone I can remember when talking about our profession. Let's face it, internal auditing is not a subject that is commonly accompanied by a humming chorus in the background and flags fluttering at stage left – well unless Larry was speaking. Larry is the only speaker that I ever heard who could start a 'speech' on an internal auditing subject and within three paragraphs move it into the meter and verse of the Gilbert and Sullivan aria *An Admiral in the Queen's Nay-vee*. The consternation of some around us and to Larry's great glee, a few of us who were more musically literate picked up on it early and began to giggle, then chuckle and then hum along. All of which only widened Larry's already infectious grin and raised him to higher levels of excitement as he enjoyed the fact that the real measure of his composition was appreciated. Pretty quickly the entire room was caught up in it and Larry was in full bloom.¹³⁰

As mentioned earlier many speeches were given abroad. He would write to an international IIA chapter and ask if they would like for him to speak.¹³¹ He would ask that his expenses be paid. This could be expensive as he and Esther always traveled first class and stayed in a spacious suite. Larry would pay Esther's fare.¹³² In later years, he slowed down the pace somewhat to about 10 lectures a year. He tired easily and needed to rest during the day. But when he got up to talk, he was very dynamic. His speaking ability was just outstanding. As a colleague put it, "I always listened to his lectures whenever he taught at one of the conferences, I would be in the audience. I just enjoyed so much hearing him speak. As a matter of fact, at the last conference that he attended and talked at, even though I knew a lot of what he was going to say, I went in to hear his speech because I so enjoyed listening to him."¹³³

His daughter Barbara went along on one such trip to Dublin, Ireland. She said that even though he was 80 years old, when he got up on stage and began to speak, it was

¹³⁰ Thompson to Goza.

¹³¹ Witt and Kuhns interview.

¹³² Lawrence B. Sawyer, *More Love Songs For Esther*, unpublished book of poetry, 1995, p.5.

¹³³ Dittenhofer interview.

as if 30 years had fallen off. He was extraordinary and the audience was riveted. He had so much energy and ability for someone his age.¹³⁴

Gerald Vinten remembers meeting the Sawyers at Heathrow airport to discuss the 2nd edition of The Manager and the Internal Auditor. The Sawyers were on their way to a convention in South Africa and stayed the night in London as the journey would be too much in one go. They went to the Sawyer's hotel room to work. Because Professor Vinten is British, the Sawyer's had saved all the tea bags from the hotel room for him and had drunk all the coffee themselves. They did not realize that many of the British prefer coffee. Professor Vinton normally did not drink tea, but decided it would be the diplomatic thing to do in the circumstances. As Professor Vinton put it, they never knew, and the stereotype of the British gentleman remained. He remembers that some people remarked about the high cost of having Sawyer speak. There was the impression that in the last 10 years or so Sawyer was perhaps trading on his past reputation and had very little new to say. Professor Vinten commented that he would be delighted to have Sawyer's mind and fitness at his age and to still be asked to speak at conferences.¹³⁵

People like Basil Pflumm at the IIA wondered what the secret to Sawyer's energy and ability was. Mr. Pflumm had been watching what he ate and always kept fruit in his office to avoid unhealthy snacking. On one of the visits to the IIA, he and Sawyer had arranged to have lunch. Pflumm had mentioned to the office staff that he was going to pay attention to what Sawyer ate thinking that diet must be the key. He was amazed to

¹³⁴ Witt and Kuhns interview.

¹³⁵ Vinten to Goza.

find out that Sawyer had a hamburger, french fries, and a martini for lunch. It was not a healthy lunch at all, but a very enjoyable one.¹³⁶

The third edition of Sawyer's book was published in 1988 with Glenn Sumners as coauthor. Although not first-hand information, it came from a reliable source that they did not work well together. "Glenn Sumners had told me that he had found working with Larry on another book revision project quite impossible, and that following the completion of the revision of the book, he never wanted to work with Larry again. He said that it was impossible to work with 'God' since he always had to be right."¹³⁷ Also in 1988, Sawyer once again contributed to the profession by helping to revise the IIA Code of Professional Ethics.¹³⁸

One of the editors of the Internal Auditor magazine, from 1988 to 1998, Anne Graham had these comments about Sawyer's writing:

He was very good at organizing information and being able to synthesize the key points, or the key meanings from manuscripts of whatever kind that he might have found. He was just very good at reducing things to their most essential parts. In terms of organizing information I used to edit manuscripts a lot and there were some manuscripts that were so disjointed and so inherently flawed in terms of the way that they were put together, that it was always a pleasure for me to read one of Larry's manuscripts because they were so rational. And so elegant, accessible to a reader, I think, at any level. And he was also someone who enjoyed the editing process. I think that there are a lot of writers who are deeply offended by editing of any kind and he was not like that at all. He was very quick to say "that's so much better, I do not know why I did not think of that". Thank you very much. So he was extremely gracious, I think, in terms of the way he worked with people.¹³⁹

Graham met the Sawyers when they visited the IIA in Orlando. They later worked on a book together not long before he passed away. She knew him well. She said that the

¹³⁶ Graham interview.

¹³⁷ Contributor to remain unnamed.

¹³⁸ Sawyer and Dittenhofer, p. xxi.

¹³⁹ Graham interview.

internal auditing profession was not known for creativity and innovation, but that Larry had both of these things. Her comments about his personality were:

I think he lived life to its fullest. There is this intensity about him. But some people overwhelm you with their intensity and I do not really think he did. He was very kind and very gracious. Although as I said he was lively, I think that it was always in a positive way. He was also a good listener. He had great balance in his personality. He seemed comfortable in all situations.¹⁴⁰

In 1991, he was named one of nine internal auditors who had made a difference in the first 50 years of the profession. He was called an enthusiastic promoter and a prolific communicator. Sawyer was listed as the most frequently cited author on internal auditing. He has contributed in leadership roles but he was known mainly for his extensive writing and lecturing. He had a different point of view from many. He promoted a shift from the attest function to one of counselor to management and the board of directors on administration of operations throughout the organization. Some of his views on control were presented that were taken from a 1965 article that emphasized providing management with assurance that the company objectives are being met.¹⁴¹

Also in 1991, his famous textbook The Practice of Modern Internal Auditing which was later changed to Sawyer's Internal Auditing, was found to be the most important publication to the profession. In this survey published in the Internal Auditor, Sawyer's book was listed above the internal auditing professional standards which was the second most important publication. Another of Sawyer's books that was co-authored with Paul Heeschen, The Internal Auditor's Handbook, was found to be tenth in importance. The Practice of Modern Internal Auditing is recognized as important as a

¹⁴⁰ Ibid.

¹⁴¹ Mary Ellen Oliverio, "Nine Who Made a Difference in Internal Auditing," Internal Auditor (June 1991), p. 48.

textbook and also as a reference resource for audit departments. Basil Pflumm, former IIA administrator, worked with Sawyer on the book has said,

If I were sent off to some remote place and asked to run an internal audit shop and given one resource I would take Sawyer's book. It's the most complete, comprehensive, arms around the whole profession, thing that is out there. And still is today. It's got everything in there from how to set up an audit office, skills you need, how to develop the staff, it is very consolidated.¹⁴²

Sawyer received the Victor Z. Brink Award in 1993. The Victor Z. Brink Award for Distinguished Service was established to recognize individuals who, over time, have given unusual and outstanding service to the profession of internal auditing through participation in the activities of the Institute of Internal Auditors. It is named after the author of the first widely read book on internal auditing, recipient of the second Cadmus Award, and IIA president from 1950-51. Brink was one of the founders of The IIA in 1941. He served the organization longer than any other member receiving the IIA's Lifetime Achievement Award. Previous Brink award winners include J.B. Thurston, J. A. Mosher, A. H. Kent, and C. N. Inman and many others.¹⁴³

Sawyer's last speech was at the 55th international conference held at Disneyland in 1996, and he was a little hesitant. But to Scheiner, who had never heard Sawyer, this was not noticeable. He said that the presentation was very well done and that you would never know that it was done by an 80-plus-year-old man.¹⁴⁴ On several occasions Sawyer had his entire family with him at conferences. They were amazed at the attention that Larry would receive. People wanted his autograph. They wanted their picture made with him. Someone said it was like being with Elvis. He was practically mobbed at

¹⁴² Pflumm interview.

¹⁴³ www.theiia.org/iia/index.cfm?doc_id=186

¹⁴⁴ Scheiner interview.

Disneyland. He loved the attention, but was humble and at ease with it all, as if it were normal.¹⁴⁵ “He was treated like a father figure, like a grand old man, like a senior statesman.”¹⁴⁶

In 1996, The Manager and the Internal Auditor: Partners for Profit was published. It was originally published in 1979 but had not sold well, only about 5,000 copies. Sawyer thought that it had not been marketed well. The book was at the time out of print and Sawyer was looking for a new publisher as well as a coauthor. Vinten was impressed with Sawyer’s treatment of internal auditing in its governance and management context which reflected themes in Vinten’s own writings. He agreed to help Sawyer revise and republish it. In Vinten’s words, “He considered that he was then out of date with his knowledge of the subject matter, so the deal was that he contributed the material from the original book, and that was all he had to do. The revision was entirely down to me, since he considered I was the most informed person to undertake the task.”¹⁴⁷

The work was done mainly through facsimile as Sawyer did not have e-mail at that time. He sent and received his faxes from his local post office. Letters were typed on a typewriter rather than a computer. Vinten was surprised that Sawyer did not have better technology as Sawyer projected an image of affluence. Sawyer did later get a computer and used it in revising Sawyer’s Internal Auditing. Vinten remembers there was some disagreement about the book but personally he kept on good terms with Larry. The disagreement arose when Vinten wanted to make the book mainly a management

¹⁴⁵ Witt and Kuhns interview.

¹⁴⁶ Pflumm interview.

¹⁴⁷ Vinten to Goza.

book with internal auditing applications, whereas Sawyer wanted the opposite. Vinten gave in at Sawyer's insistence to be able to finish the book and get it published.¹⁴⁸

Sawyer told Vinten that he thought this book, as updated and coauthored by Vinten, to be his best work. It describes the latest in management theories and how the internal auditor can apply these to their practice to increase their value to their organizations.¹⁴⁹ Dittenhofer had some comments about how strongly Sawyer believed in consultation with management. He said, "He felt that it was a tremendously important aspect of management, that Internal Auditing itself was a part of management. That it contributed to good management. And the internal auditor himself was really a part of the management process."¹⁵⁰

Pflumm said very much the same thing adding that Larry wanted the internal auditor to make a difference throughout the organization. He took an expansive view. The auditors' roots were in finance, but they should be just as involved in the operational, the effectiveness, and the performance side of things. Here there were no bounds.¹⁵¹

When Graham was asked about his influence in the profession she said,

I think that his idea about how internal auditing supports management, was always at the center of his writing and thinking. There was and maybe still is, I do not know, a group of internal auditors who are in the gotch-ya group, where they are always reviewing and perhaps delighting in finding things wrong. He was not like that at all. So I think he was way ahead of his time in terms of the way he thought of the profession. And in terms of the vision that he had for what the profession could be. . . He felt strongly about leadership. Internal auditors should be leaders not only within their profession, but in management, in the corporate environment.¹⁵²

¹⁴⁸ Ibid.

¹⁴⁹ Wynne, Andy, "The Manager and the Internal Auditor Readings," Internal Auditor Dec 1997, p.20.

¹⁵⁰ Dittenhofer interview.

¹⁵¹ Pflumm interview.

¹⁵² Graham interview.

The Practice of Modern Internal Auditing Revised

The Manager and the Internal Auditor: Partners for Profit may reflect Sawyer's central philosophy, but it is The Practice of Modern Internal Auditing that is the most famous perhaps because it has been the most useful. It has been revised about every eight years since the first publication in 1973. A new edition was published in 1981 and again in 1988. Following this pattern, a new edition was published in 1996 with a new title, Sawyer's Internal Auditing. This book was coauthored by Mortimer A. Dittenhofer, with assistance from James H. Scheiner. Scheiner updated the computer auditing and statistical sampling chapters.¹⁵³ According to Scheiner, they were the only coauthors to work with Sawyer on more than one edition of a book.

Dittenhofer remembers that they did not see eye to eye on everything and there were some deep discussions but they were always pleasant. Larry had a soft touch and was easy to work with.

I recall in one case we were arguing over who would be responsible for follow-ups on audit reports and whether or not it should be the internal audit operations or management. I do not think that we ever reached any agreement on it. He stayed with his concept that it should be the audit operation that should be responsible for follow-up and it was mine that management would. It was good-natured arguing and there was never any acrimony in the process at all. Well, he won. He had a lot more power on his side than I did on mine. I still haven't changed my mind. I still feel that the internal auditor identifies the problem, presents it to management, management decides whether to follow up or not. If they decide not to that is a management decision not an internal audit one. Actually, in this last edition of Sawyer, seeing that he was not active, I was able to win a bit of that battle as he was not around to dispute me. But it was good natured and we have never had any acrimonious feelings at all. All of our work together during a period of 30 years has always been very friendly and I considered him one of my very best friends even though we did not always agree professionally.¹⁵⁴

¹⁵³ Scheiner interview.

¹⁵⁴ Dittenhofer interview.

Dittenhofer was referring to the fifth edition that came out in 2003, which will be discussed in detail below. The arrangements for the fourth were that they split up the chapters, they would revise, and let the other author edit their revisions. That worked fairly well.

A couple of times on my chapters, I did not agree with Larry's changes. I won a couple of them and he won a couple but there was no acrimony at all. It was just a case of intelligent analysis of what it was we were discussing. He would be easy to deal with. Even when he won and I lost, there was no feeling of unfriendliness. . . I did admire his ability and his knowledge of the field and it was his book, had his name on it, when it come to a final decision, why my opinion did not count, it was his decision to make.¹⁵⁵

Sawyer motivated others to do well by his example. He was a natural born leader. It was not so much an autocratic thing as it was charisma. According to Dittenhofer it was not just a style, he was a leader, and people did not question that whatever he said was the gospel truth. When asked about negative qualities, there was some hesitation. He answered "If anything, it was his unintentional consideration that there just was not any other way than his."¹⁵⁶ "He had definite ideas about things and wouldn't back down."¹⁵⁷ Anne Graham when discussing their work on his book, said there was no question that he was the leader. "It was not a command and control kind of thing, that was not his style at all, it was much more of a collaborative spirit."¹⁵⁸

Some may consider Sawyer's writing style to be very flowery.¹⁵⁹ As one person put it, "He was not a one-pager."¹⁶⁰ Others loved it. "He wrote things that were easy for

¹⁵⁵ Ibid.

¹⁵⁶ Ibid.

¹⁵⁷ Shaeffer interview.

¹⁵⁸ Graham interview.

¹⁵⁹ Scheiner interview.

¹⁶⁰ Pflumm interview.

the common person to understand, a non-internal auditor to understand.”¹⁶¹ Dittenhofer appreciated Sawyer’s writing style with these comments:

His writing was beautiful. You can tell the stuff that he wrote from the stuff that I wrote because I do not have the talent for handling words that he did. People might say that he was verbose in his writings because he wrote to paint a picture and I think reading through material he wrote is fun, his writing was beautiful and he got his points across.¹⁶²

The publication date had been set for the 4th edition and a plan made for when certain chapters would be done. Sawyer made them stick to it. He was retired but the others were working at their university jobs. Dittenhofer remembered that several times Sawyer called him and asked him why they weren’t where they were supposed to be on the project. In this way he motivated and kept them on track. He managed time well. He occasionally appeared stressed but handled it well because of planning and time management.¹⁶³ Some work was done by telephone. They did not use technology with the 4th but worked with hard copies. Dittenhofer describes himself as “not computer oriented unfortunately.”

Sawyer worked with several people at IIA in planning the fifth edition. The book was designed to be a college textbook, but the IIA has sold more to practitioners. It is a resource people have on their desk like a dictionary. Stacy Mantzaris recalls that Sawyer was very friendly, had a good sense of humor, and was fun to work with. Several of the IIA staff members who worked with Sawyer, like Mantzaris were young women who were not internal auditors. Yet he was very respectful of their positions. He was a gentleman, always charming, and gracious. He got to know people, even if the only contact was over the telephone, he would remember them and knew their names. He was

¹⁶¹ Mantzaris interview.

¹⁶² Dittenhofer interview.

¹⁶³ Ibid.

extremely intelligent and had a lot of confidence in what he was doing and yet did not seem egotistical. He was passionate about his work. His writing was very good. It was obvious that he wanted the reader to enjoy the material. He wrote like he was telling a story.¹⁶⁴

Dittenhofer remembers that they started planning the 5th edition in December of 1997.¹⁶⁵ They had met previously at IIA headquarters to discuss royalties and the terms of the contract with the publisher. Scheiner said “Let me tell you, Larry is a tough negotiator, even in his old age he was a tough negotiator.”¹⁶⁶ Then they had met at the Disneyland conference. Scheiner remembers Larry insisting that they have drinks in his suite before dinner. “He was in that sense a gracious old-school person, you had to have a drink with him in the afternoon.”¹⁶⁷

Later they met in the Sawyer’s home in the retirement village. Esther was not well and Larry would not leave her. He watched after her and was very patient with her.¹⁶⁸ The working environment was pleasant. The Sawyers took them out to eat and were very gracious. It was not as if Sawyer kept their noses to the grindstone. Meal times were mostly social occasions. If something came up it was discussed but it was not as if the meal was a working meeting. It was a time to have a break from the work.¹⁶⁹ In fact the visitors would leave and go back to their hotel in the evenings so the Sawyers could dress up for dinner.¹⁷⁰

¹⁶⁴ Mantzaris interview.

¹⁶⁵ Dittenhofer interview.

¹⁶⁶ Scheiner interview.

¹⁶⁷ Ibid.

¹⁶⁸ Scheiner interview.

¹⁶⁹ Dittenhofer interview.

¹⁷⁰ Scheiner interview.

Scheiner remarked that being with them was like a throw-back to the sixties. Their home was decorated in that sixties style. He remembers sitting on a sofa in their living room and looking at a photograph of Larry and Esther taken possibly thirty years earlier, standing in front of the exact same sofa. He also noticed that their clothing was very nice but dated. And they had both lost weight since the apparel was purchased. The Sawyers had their favorite restaurants that they always insisted upon. In some ways, it appears that the Sawyers were very set in their ways.

Scheiner felt that this was true professionally, that Larry was not up on the issues. Larry was a theoretician, in the sense of a theoretician of the sixties. His focus was on how things should be, but he was not in touch with how things actually were.¹⁷¹

Others who wanted to remain anonymous also felt that Larry was very good with broad theory and general concepts but had not kept up with the changes in the practice of auditing, especially in the field of technology. One internal auditor had been asked to help update the book but found it difficult to work with Sawyer because he “had a tendency to become wedded to what was in the book and was more than reluctant to recognize that changes were occurring in some aspects of the world within which the practice operated.”¹⁷² After several exchanges the author suggested Sawyer find someone else. It appears that Schiener and Dittenhofer worked well with Sawyer. Schiener remarked that Dittenhofer was so nice, he could get along with anyone.¹⁷³

In other ways Sawyer was progressive and others viewed him so. He wanted his book to reflect the latest in technological and professional developments so it would be the state of the art of internal auditing when it hit the press. He accepted the new

¹⁷¹ Scheiner interview.

¹⁷² Anonymous contributor.

¹⁷³ Scheiner interview.

definition of internal auditing that came about in 1999 as a result of a competency framework study and an international outsourcing study. He wanted to understand the change, and why it was necessary, and he reviewed all the background material. Then he accepted it and became a spokesperson for it.¹⁷⁴ “I thought he was very progressive considering his age. He just seemed to always get it and move with the profession almost to a point. He always knew what we (IIA) were doing.”¹⁷⁵

There was a conflict among Sawyer, Dittenhofer, and Scheiner about what to call the people being audited. The IIA had started using customer rather than auditee, and Sawyer agreed that this had a nicer connotation and made the auditors sound less like the cops looking for a criminal and more like a consultant there to help. But the other two authors wanted to stick with the term auditee and there were several conversations about it before they were convinced. Sawyer was the more progressive in that circumstance.¹⁷⁶

He had made changes in his personal life as well. He drove a new Lexis. Also he had stayed modern with the technology learning to use a computer. He had made the guest room into a study. He had his computer there and it was very neat and orderly.¹⁷⁷ In working on the book, Scheiner made changes on the computer and put Dittenhofer’s work on computer. That made for a convenient relationship and a lot was accomplished during those meetings at the Sawyer’s home.¹⁷⁸ At this first meeting Scheiner remembers:

At that point he was very organized, he had his agenda, it was tight and everything. Now Larry had stayed modern. He was not typing it on a typewriter, he had a computer, he did his typing on a computer. Very

¹⁷⁴ Pflumm interview.

¹⁷⁵ Mantzaris interview.

¹⁷⁶ Ibid.

¹⁷⁷ Scheiner interview.

¹⁷⁸ Dittenhofer interview.

much involved in the book. In finishing that part of the book, Larry exerted strong control. . . You need to understand that Larry never wanted to take anything out of the book, if it was in the book, it stayed in the book. He was very much (pause)Larry was very set in his ways of how his writing should be. That was clear in the fourth edition. That all changed in the fifth.”¹⁷⁹

The plan was for Sawyer to edit everything written by the other two authors. Unfortunately this did not come about.¹⁸⁰ At their next meeting, there was clearly a change. Esther was more dependent upon Larry. “Esther would be at dinner and literally not know where she was.”¹⁸¹ Larry was starting to go along with anything that was said about the book. He was losing interest in the project. Scheiner remembers commenting to Dittenhofer after one meeting that he was not sure they would be seeing Esther very much longer. Also he remembers discussing their concern about the decline in Larry. After that, Sawyer made arrangements at the IIA for Anne Graham to help him with his writing.¹⁸²

Graham agreed to ghost write the five chapters for Sawyer in 1999. She wanted to update the material but change as little as possible because in her opinion Sawyer’s writing style was very good. She would insert the new material in red or bold print, changing it not more than 50%. She would submit it to Sawyer to read and edit. “He was very good at reading thoughtfully and carefully. I think we were a pretty good team actually.”¹⁸³ She thought working with Larry was great, and that he was fun to be around. Once she had cancelled an appointment because she had plans to celebrate her birthday. He called on her birthday and sang Happy Birthday to her over the phone.

¹⁷⁹ Scheiner interview.

¹⁸⁰ Dittenhofer interview.

¹⁸¹ Scheiner interview.

¹⁸² Ibid.

¹⁸³ Graham interview.

As far as the rest of the book, Sawyer just did not have the energy for such a project, for getting it going and getting it out.¹⁸⁴ Sawyer said that he would read the final draft but did not get that opportunity.¹⁸⁵ Taking care of Esther took its toll as her illness progressed. Then she passed away in 1999 and his grief affected his ability to concentrate. His health was also declining. He would mention his frailties, which he never did while working on the fourth edition. He would say things like he did not know how long he would be around. Within a year of Esther's death, Larry moved to an assisted-living location.¹⁸⁶ Dittenhofer called him with a question about the book and he said he could no longer handle it and for Dittenhofer to take care of the situation. Dittenhofer could tell that Sawyer was not well. His voice was very faint. Two weeks later Sawyer passed away.¹⁸⁷

Dittenhofer and Scheiner wrote and edited their sections, thirteen chapters each. Sawyer had the five chapters that he wrote with the help of Anne Graham.¹⁸⁸ The IIA asked Dittenhofer to be at the 2003 international conference to introduce the book and sign copies. As a tribute to Larry he signed them "For Larry", then his own name, and the date.¹⁸⁹

The fifth edition was published in 2003, after Sawyer's death. Sawyer had given the IIA rights to continue to use his name on upcoming editions and the IIA dedicated the book to him. The president of the IIA wrote a few paragraphs about Sawyer's accomplishments, entitled "In Memoriam," that is included at the beginning of the book.

¹⁸⁴ Heeschen interview.

¹⁸⁵ Scheiner interview.

¹⁸⁶ Ibid.

¹⁸⁷ Dittenhofer interview.

¹⁸⁸ Ibid.

¹⁸⁹ Ibid.

“He was a man of honor, a man of many words, and a man, who even in memoriam, continues to give back to the profession in which he was revered as the father of modern internal auditing. This textbook is Larry’s lasting contribution to the profession.”¹⁹⁰

Other Awards and Honors

In December of 1997, the IIA Board passed a resolution establishing the Lawrence B. Sawyer Award for outstanding achievement in promoting the CIA program. It is awarded to organizations or chapters that demonstrate commitment to the program judged by the number or percentage of new CIAs, or CIA candidates, or CIA candidate performance.¹⁹¹ The award represents the exemplary values of Sawyer, a highly acclaimed author, educator, and leader in the profession.¹⁹²

Around the time that Sawyer moved to the assisted-living location, he donated his personal library to the IIA. At that time the IIA’s library was renamed and dedicated to Sawyer with a plaque on the library wall, and is now known as the Lawrence B. Sawyer International Library.

Esther has also been honored with a scholarship in her name. She died in 1999. “Larry was devastated.”¹⁹³ They had been married for 64 years.¹⁹⁴ Larry credited his family for much of his success and Esther had the greatest impact on his writing. She had edited college textbooks before the children were born. She was the first to review all his manuscripts. She was a sounding board for all his speeches. And she was a traveling

¹⁹⁰ William G. Bishop III, IIA President, “In Memoriam,” Sawyer’s Internal Auditing, Fifth Edition, unnumbered page.

¹⁹¹ Audit Wire, (January/February 1998), p. 9.

¹⁹² www.theiia.org/iia/index.cfm?doc_id=1182

¹⁹³ Mints interview.

¹⁹⁴ “Obituaries-Lawrence B. Sawyer,” Ventura County Star (September 22, 2002).

companion to all of his seminars and speaking engagements around the world. Togetherness fortified their relationship, they were always side by side.¹⁹⁵ In fact they always sat side by side on the sofa, holding hands, or with his arm around her shoulders.¹⁹⁶ In a poem describing their marriage he said “One word, dear, describes ours best: our cloak for any weather; What’s meant the most to me these years is simply this: TOGETHER.”¹⁹⁷ “He (Sawyer) was duly awarded during his life for his achievements, but his greatest reward was having his wife, Esther, by his side.”¹⁹⁸

The year following her death the annual Esther R. Sawyer Scholarship was announced and the first scholarship award was announced in 2001. Sawyer and his family donated funds for the scholarship to pay tribute to Esther and also to promote internal auditing education. This was initially \$150,000.¹⁹⁹ Sawyer also donated the royalties from the fourth and fifth editions of Sawyer’s Internal Auditing to the scholarship award fund from his estate.²⁰⁰ An internal auditing graduate student receives \$5,000 and an all-expense-paid trip to the international conference.

In the press release announcement from the IIA Research Foundation, Esther was described as a gracious ambassador for internal auditing. She promoted internal auditing education and enjoyed explaining the role of modern internal auditing to others. She also edited manuscripts, speeches and textbooks that her husband wrote.²⁰¹ She typed the

¹⁹⁵ Geanopulos, p. 47.

¹⁹⁶ Witt and Kuhns interview.

¹⁹⁷ Lawrence B. Sawyer, More Love Songs For Esther, p. 25.

¹⁹⁸ Bishop, unnumbered page.

¹⁹⁹ Dale L. Flesher and Elaine R. McIntosh, The Institute of Internal Auditors: 60 Years of Progress Through Sharing (Altamonte Springs, Florida: Institute of Internal Auditors, 2002), p. 109.

²⁰⁰ Ibid.

²⁰¹ New \$5,000 Scholarship Announced, IIA Educator, Fall 2000, http://www.theiia.org/iia/index.cfm?doc_id=1477

manuscript for his first book and helped with words and logic.²⁰² He gave her credit for the 1981 revised and expanded edition remarking on her dedication, support, and sense of what was fitting and reasonable. She typed, reviewed, asked hard questions, and bucked him up when needed.²⁰³ She never tired of helping Larry. Even in the later years when suffering from dementia she demanded to see everything Larry wrote. Even though “she was not making a lot of sense, (in other ways), she could still edit.”²⁰⁴ The scholarship not only promotes internal auditing education, but it promotes excellence in writing as well, as the candidates must submit an article they have written on an internal auditing topic.²⁰⁵

In 2000, just two years before his death, he was given the first life-time achievement award.²⁰⁶ It was presented to Sawyer at the International Conference in New York City in 2000.²⁰⁷ He enjoyed himself at the convention, even dancing and really having a good time. He had trouble seeing, but that was the only outward sign that something might be wrong.²⁰⁸ He was very lively, and was said to have bounced around the dance floor.²⁰⁹

Howard Johnson, the IIA Chairman of the Board, presented Sawyer with the award with these remarks.

Larry is no stranger to awards. Throughout his career he has inspired countless students and professionals, shared his knowledge, and has served as a wonderful emissary. He has deservedly received many accolades and awards, including the Bradford Cadmus Award, the Victor

²⁰² Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, acknowledgment, p. xi.

²⁰³ Sawyer, The Practice of Modern Internal Auditing, 1981 Expanded Edition, Acknowledgements, p. xiv.

²⁰⁴ Witt and Kuhns interview.

²⁰⁵ Personal interview with Susan Leone, IIA Administrator, Altamonte Springs, Florida, March 30, 2004.

²⁰⁶ “In Memoriam,” p. 76.

²⁰⁷ Audit Wire, (September/October 2000), p. 6.

²⁰⁸ Mantzaris interview.

²⁰⁹ Personal interview with Trish Harris, IIA Administrator, Altamonte Springs, Florida, March 30, 2004.

Z. Brink Award for Distinguished Service, and several John B. Thurston Awards for Literary Excellence. Larry has singularly impacted this profession more than any other individual to date. He has worked hard to encapsulate and share his vast knowledge through articles, speeches, and textbooks. Sawyer's Modern Internal Auditing, Fifth Edition, is the number one textbook in use in colleges and universities throughout the world. He alone has and is doing more to impact past and future generations of auditors than any other individual. Larry challenges internal auditors the world over to continue to grow, explore, and welcome new concepts, ideas, and technology that will truly make a difference in our profession, our organizations and the managements we serve. With everything said, we can think of no higher honor, award, or distinction more fitting than to present Lawrence B. Sawyer with the one and only IIA Lifetime Achievement Award. Congratulations Larry!²¹⁰

Per the IIA website, when Sawyer accepted the award, he recited the poem he had written, "Internal Auditing Then and Now".²¹¹ According to his daughters, he said thank you very much and told a joke. It reminds me of the old man who went to the urologist and he said, "Dr., I can't pee" (and this was in front of a huge audience) and the Urologist said, "How old are you?" The old man said 96. The Dr. said, "You've peed enough". And that was his acceptance. The audience roared. He knew when enough is enough. He knew when he had to stop making speeches. Before that he knew when not to take questions because he could not formulate the answers well enough. "It is odd that someone who loved it so much should know when he was finished and he did."²¹²

The IIA has recently released 22 of his journal articles in a book titled Sawyer's Words of Wisdom. Former IIA president William G. Bishop wrote the preface to the book. It was his opinion that the articles are perceived to have timeless relevance and

²¹⁰ Howard Johnson, IIA Chairman of the Board, Unpublished Opening Remarks, International Conference 2000, June 12, 2000.

²¹¹ http://www.theiia.org/ia/index/cfm?doc_id=186 accessed January 3, 2005. This poem written by Sawyer is included in Appendix G.

²¹² Witt and Kuhns interview.

value to the profession.²¹³ Sawyer was an exemplary visionary and through his legacy today's internal auditors and those of tomorrow can be the best that they can be.²¹⁴

Conclusion

Larry Sawyer died September 18, 2002 peacefully at his home in Camarillo, California at the age of 91.²¹⁵ He had lived there 25 years. He had four grandchildren and 5 great grandchildren.²¹⁶

He had a passion for the profession. From his articles one can see his vision and enthusiasm for the profession.²¹⁷ "He was one of the true pioneers of the fledgling field of internal auditing and became its most well known advocate."²¹⁸ "He was an outstanding husband and father and an exceptional person."²¹⁹ "He was a worker, he really was. When he had a job to do, that came first and he got it done."²²⁰ "Very very wonderful guy. I would identify him as one of the most outstanding people that I have ever been associated with. He was just fabulous."²²¹ "He had a significant influence on the profession. I think his text is purely the reference guide and I think he viewed himself as the leading scholar of the profession."²²² "He was an extraordinary man. He was a leader. He was not big in stature, but he was certainly big amongst his peers. There was a certain reverence for him."²²³ "I think in general he was one of the most professional

²¹³ William G. Bishop III, IIA President, "Introduction", Sawyer's Words of Wisdom, yet to be published.

²¹⁴ Harris interview.

²¹⁵ "In Memoriam," p. 76.

²¹⁶ "Obituaries-Lawrence B. Sawyer."

²¹⁷ Joanne Hodges, Internal Auditor, "Known by His Words," Editor's Note Dec. 2002, p. 6

²¹⁸ Steve Root, IIA member, Los Angeles Chapter, to Nina Goza, University of Mississippi, Mar 15, 2004.

²¹⁹ Heeschen interview.

²²⁰ Ibid.

²²¹ Dittenhofer interview.

²²² Scheiner interview.

²²³ Graham interview.

speakers that we have ever had, as well as one of the better writers.”²²⁴ “He was gracious, just so loving, warm, appreciative, and to be someone that was so detail oriented as an internal auditor has to be, I think he had a very well developed emotional intelligence as well.”²²⁵

He had a loving and warm spirit and was admired by everybody. He loved the profession. He believed in the standards and certification. He was dedicated to promoting the professionalism of the profession. His name became synonymous with the profession.²²⁶

Scheiner said he thought that a lot of people felt that Larry was the expert. There were leaders at the time that internal auditing was developing like Sawyer and Dittenhofer. And there were others before them like Brink. He said that Sawyer considered himself to be following these early leaders and carrying forward the work that they had started.²²⁷ Mortimer Dittenhofer agreed that there were earlier leaders of importance, the founders of the IIA and Brink. “But they were all dead and Larry was the one that we all knew. He was the current day icon for the profession.”²²⁸

Some people in the profession feel that Sawyer may have been given too much credit. “Well because he wrote the articles. The rest of us did the work and he publicized it.”²²⁹ He is known as the Father of Internal Auditing. This title may not be justified when there were others who played an important role such as the founders of the IIA. Several people interviewed mistakenly believed Sawyer to be one of the original founders. This lends credibility to the idea that he may be given too much credit. Examples of others who made a difference include those who were at the forefront of

²²⁴ Inman interview.

²²⁵ Harris interview.

²²⁶ Ibid.

²²⁷ Scheiner interview.

²²⁸ Dittenhofer interview.

²²⁹ Anonymous quote.

operational auditing such as Herb Kimball, who “was the one that got Lockheed started in operational auditing.”²³⁰ “Herb Kimball, who was if you want to talk about one of the fathers of internal auditing, he was it.”²³¹ “Larry is a long way from the father, he may be a grand nephew.”²³² Bill Smith worked to get the certification program accepted. Robert E. Gobeil proposed the IIA issue standards. Roger Carolus chaired the committee that developed them.²³³ Carolus shared many of the same ideas as Sawyer.²³⁴ There have been many who have made a contribution. No one seems to know how Larry became known as the father and he did not consider himself to be the father. He would have said Brink was the father.²³⁵

“He was immensely respected, more so than the father of internal auditing, and more like a Saint or High Priest. He had such a following that the words flowed from his tongue and a grateful audience hung on his very word.”²³⁶ And so maybe it did not matter that in the later years his message was not new. And perhaps anyone else would have been criticized. At that point, Sawyer was more of a figurehead. Professor Vinten commented that he respected Sawyer’s writing, both the style and content, and that it was an honor to work with him. Professor Vinten is the editor of the Managerial Auditing Journal published in Great Britain. The annual award given by the journal for best article is entitled the Lawrence B. Sawyer Award. Sawyer served in an honorary capacity as President of their Editorial Board until he passed away.²³⁷

²³⁰ Heeschen interview.

²³¹ Mints interview.

²³² Anonymous quote.

²³³ Inman interview.

²³⁴ Pflumm interview.

²³⁵ Leone interview.

²³⁶ Vinten to Goza.

²³⁷ Ibid.

Gerald Vinton, a well known internal audit author and professor had these balanced comments.

For all Larry's strengths as a writer, speaker, motivator and an icon to the profession – and those would in no way be demeaned – he was not strong on first hand research. He did not continue in practice, neither did he go out and spend in depth time in the field with people who were in practice to see the day-to-day practice of internal auditing. But, hey, even Achilles had his heel! On balance through his writing Larry Sawyer provided the profession a keystone publication that struck a cord that no other ever did. I am looking across my office at a bookshelf full of texts written by people I respect and admire as much as Larry who wrote manuals on internal auditing that did not catch fire like his did. Maybe the sponsorship by the IIA had a lot to do with it but the IIA also sold the others. Certainly the fact that Larry published in other forms like the Grandfather series and innumerable articles and monographs had to buoy the sales of the book. The constant speaking engagements had to help as well. Still and all there is just something about the Sawyer style that made it an easy piece for a novice to pick up and read; an easy reference to return to when preparing for the basics in the CIA exam. Last and maybe most compelling, it was an easy source for CIA exam question writers to go to cite as a reference for a myriad of subject areas when they were constructing and submitting questions for the exam.²³⁸

According to Dittenhofer, Sawyer had a great influence on the IIA. It was not so much new ideas as it was his example. "He was a very ethical person and a very knowledgeable person and the combination of the two I think had a lot to do with the approach that the Institute has taken. He really set the standard for the quality of work that the Institute has done I think."²³⁹

In so many words, Heeschen summed it up well. It was the Institute more than any one person that pushed the profession forward. This was the result of the work of many individuals, all volunteers. The statement of responsibilities, the standards of the profession, the CIA, and the quality assurance program were all accomplished through the Institute. Larry's contribution was his ability to communicate, in writing and on the

²³⁸ Vinton to Goza.

²³⁹ Dittenhofer interview.

stage as speaker.²⁴⁰ This echoed Inman's thoughts that there have been many contributors, and no one person is responsible for the progress of the profession. "Larry made a very good contribution. He is a very good speaker, a very good writer. And I think the book that he prepared was immeasurably helpful because it opened the way to getting courses established in the colleges."²⁴¹

Certainly in my time period, he was never a player in the governance structure, that was not what he did, he was very content to be the publisher of the Sawyer's, that really was his claim to fame, what he owned, it was his legacy. His openness to the evolution of the profession and the consolidation of that information in one summary place. I think that may be his primary contribution.²⁴²

²⁴⁰ Heeschen interview.

²⁴¹ Inman interview.

²⁴² Pflumm interview.

CHAPTER III

BUSINESS, ACCOUNTING, AND INTERNAL AUDITING ENVIRONMENT

Lawrence B. Sawyer attained his formal education during the early to mid 1930s and began work at the United States General Accounting Office (GAO) in 1937. A brief history of internal auditing up to the time Sawyer was beginning his career and a summary of the accounting and business environment at that time will be presented. Also a brief look into the environment at the GAO, where Sawyer was first employed as auditor and worked for 19 years, will be made. This background material will help to understand what influenced the man and his philosophies. In each area a brief history leading up to 1930, followed by a summary of the events during the 1930s is presented along with how these events could have made an impact on Sawyer.

Business Environment During the 1930s

The Great Depression was the main event at the time that shaped the environment for years to come. Seeing the resulting unemployment, Sawyer may have sought an education for job security reasons. Government regulation and spending grew throughout the 1930's. Perhaps the growth in government resulted in an increased demand for lawyers and possibly in Sawyer's decision to get a law degree. Sawyer's first job after graduation was in government. According to his family the government internal auditing job was the only work Sawyer could get at the time. It was during the 1930's that the airline industry really began with help from the government in the form of regulation and

building of airports. Sawyer later worked in the aircraft manufacturing industry for years. During the depression, businesses suffered huge losses and many did not survive. This may have been the motivation for Sawyer's later work in the area of management auditing. In addition to the stock market crash, there were several highly publicized business scandals. Perhaps this is the reason Sawyer felt that internal controls, compliance, and fraud auditing were so important. Someone like Sawyer, who was a young man considering his own future, would certainly ponder the causes of the stock market crash, the depression, and the events occurring as a result.

The railroad more than any other factor had given rise to industrialization in the United States by expanding markets and revolutionizing transportation.¹ All the resources necessary came together in the nineteenth century for a successful industrial economy. The American system of manufacturing utilized large-scale machine production. Standardized interchangeable parts allowed a semi-skilled labor force.² There was no shortage of labor due to immigration and migration of the population from rural to urban areas as the society had changed from an agricultural to industrial base. Cheap energy was available in coal, oil, natural gas, and electricity.³ Immediate communication with the telegraph, ticker, and telephone linked businesses and markets.⁴

Large amounts of capital required for equipment had made the corporate form of business necessary. Companies had decreased competition through consolidation and had integrated vertically to lower cost and gain more control over the markets. The giant

¹ Keith L. Bryant and Henry C. Dethloff, A History of American Business (New York, New York: Prentice-Hall Inc., 1990), p. 118.

² Ibid., p. 69.

³ Ibid., p. 151.

⁴ Roger M. Blough, "Economic Life in America and the Corporate Contribution," Business and the American Economy, 1776 – 2001 (New York, New York: New York University Press, 1976), p. 90.

corporation had become the central economic institution in American capitalism.⁵

Control had shifted from owners to managers of corporations.⁶

Banks facilitated accumulation of capital, attracted foreign investment, established stable currency, facilitated trade, and provided easy credit.⁷ The investment bankers and stock market had played an important role in providing capital for the nation's economy. By the early 1900s, the New York Stock Exchange was the leader in international finance.⁸

There was an expansion of international trade after the First World War. The American economy was the strongest in the world. The United States lent to the world, attracted foreign investment and exported more goods than it imported.⁹ The dollar was equal to the pound and franc in international exchange.¹⁰

The consumer markets had flourished. Mass production, standardization of products, packaging and advertising helped to create a market economy. Automobiles were made affordable and credit was available to the consumer.¹¹ Ready-made apparel, shoes, and electric appliances were introduced in new department stores that offered money back guarantees.¹²

As a result of the booming economy, the American people were doing very well in the twenties.¹³ Corporations paid dividends regularly, like interest, to attract

⁵ Bryant and Dethloff, p. 170.

⁶ Gary John Previts and Barbara Dubis Merino, A History of Accountancy in the United States (Columbus, Ohio: Ohio State University Press, 1998), p. 105.

⁷ Ibid., p. 223.

⁸ Previts and Merino, p. 113.

⁹ Ibid., p. 243.

¹⁰ Ibid., p. 244.

¹¹ Arthur M. Johnson, "The Business of America," American Issues, Understanding Who We Are (Nashville, Tennessee: American Association for State and Local History, 1976), p. 94.

¹² Ibid., p. 92.

¹³ Previts and Merino, p. 241.

shareholders.¹⁴ Credit was cheap and available. Tax cuts and the Soldiers Bonus from World War I, as well as an increase in corporate profits and increased productivity of the economy fueled an expansive and increasingly speculative stock market. An investment boom resulted in soaring stock prices.¹⁵ Rather than invest in plant and equipment, corporations were finding it more profitable to invest in the stock market.¹⁶ The number of millionaires increased from 7,000 in 1914 to 40,000 in 1928.¹⁷

The stock market crashed on October 29, 1929. Within one month thirty billion dollars in stock values were lost.¹⁸ The country went into what is now called the Great Depression. Corporate profits disappeared and in 1932 losses were \$5.6 billion.

Between 1929 and 1933, the gross national product fell by one half in current dollars and approximately one fourth in real terms.¹⁹ Unemployment was 3.2 percent in 1929 and grew to 25 percent in 1933 and remained above 15 percent through the 1930's.²⁰

Unemployment was not measured accurately at the time and some estimate it to be closer to 20-30%.²¹ As unemployment increased, union membership fell and bargaining power declined significantly.²²

Within a four-year period, 10,797 banks went out of business. In 1933, all banks were closed to stop a national bank panic. Only 90% reopened for business. Over 4,000 banks were lost in that one year. Exports fell from \$5.1 billion in 1929 to \$1.5 billion in

¹⁴ Ibid., p. 249.

¹⁵ Bryant and Dethloff, p. 230.

¹⁶ Ibid., p. 231.

¹⁷ Cedric B. Cowing, "Sons of the Wild Jackass and the Stock Market," Business History Review (Summer, 1959), p. 153.

¹⁸ Ibid., p. 155.

¹⁹ Carl Kaysen, "Government and Business in the United States: A 225 Year Perspective," Business and The American Economy 1776 – 2001 (New York, New York: New York University Press, 1976), p. 69.

²⁰ Bryant and Dethloff, p. 279.

²¹ Kaysen, p. 69.

²² Norman J. Wood, "Industrial Relations Policies of American Management," Business History Review (Winter, 1960), p. 413.

1932. Not just the United States was affected. The overall world trade declined 70% in volume.²³ The United States withdrew commitment to international capitalism and expansion overseas did not resume until after World War II.²⁴

The Emergency Banking Act of 1933 put a halt to the bank panic by closing all banks just two days after Franklin Roosevelt became president. The banks were not allowed to reopen until their financial condition could be certified by specially appointed bank examiners. Loans were made to banks with liquidity problems.²⁵ The Federal Deposit Insurance Corporation was created by Congress in 1933, to insure bank deposits. Many banks reopened within weeks and the public confidence in the banking system was restored.²⁶ The Federal Reserve System was expanded in 1935 with the Banking Act. Banking regulation was just the beginning.

The 1930s was a time of pervasive governmental intervention.²⁷ In 1933, Franklin Roosevelt became president and proposed reform called the New Deal to help the country out of depression and prevent a recurrence.²⁸ The Agricultural Adjustment Act of 1933 attempted to increase farm income, through increasing prices by such measures as acreage control and stockpiling of produce.²⁹ The government created jobs by establishing organizations like the Civilian Conservation Corps, National Youth Administration, and the Works Progress Administration.³⁰ Federal spending was 3% of

²³ Kaysen, p. 69.

²⁴ Bryant and Dethloff, p. 246.

²⁵ Ibid., p. 282.

²⁶ Ibid., p. 232.

²⁷ Johnson, p. 88.

²⁸ Bryant and Dethloff, p. 280.

²⁹ Ibid.

³⁰ Kaysen, p. 71.

national income in 1929, and 12.3% in 1939.³¹ The increase in dollars was from somewhat over 3 billion to somewhat over 7 billion.³²

During the 1930's ten new regulatory agencies were established such as the Federal Communications Commission for regulating radio and telephone, Federal Power Commission for electricity and gas regulation, and Motor Carrier Commission for the regulation of the truck transport industry.³³ Also created were the Civil Aeronautics Board, for the aviation industry and the Maritime Commission for the merchant marine industry.³⁴ Existing commissions were given broadened or increased powers.³⁵ This included the Food and Drug Administration and the Federal Power Commission.³⁶

The collapse of an energy-based empire created by Samuel Insull resulted in investors losing millions in 1932. The government enacted the Public Utility Holding Company Act to prevent private, investor-owned utility empires. Other energy regulation followed with the Rural Electrification Act and expansion of the Tennessee Valley Authority.³⁷

Another highly publicized scandal involved Kreuger and Toll, Inc. This was the largest bankruptcy on record at the time and involved fraudulent financial reporting. The reporting or rather the lack of reporting covered up a revolving scheme of paying high dividends with proceeds from issuance of securities. This case resulted in an explosion

³¹ Jules Backman, "Past Growth and Future Prospects," Business and the American Economy, 1776 – 2112 (New York, New York: New York University Press, 1976), p. 12.

³² Bryant and Dethloff, p. 278.

³³ Kaysen, p. 70.

³⁴ Johnson, p. 91.

³⁵ Kaysen, p. 70.

³⁶ Bryant and Dethloff, p. 310.

³⁷ *Ibid.*, p. 159

of press coverage. Several have said that this scandal resulted in the securities regulation that followed with the securities acts.³⁸

The 1933 Securities Act required registration of new issuances and required financial information to be provided. The oversight was first taken over by the Federal Trade Commission. The 1934 Securities and Exchange Act created the Securities and Exchange Commission to take over these duties.³⁹

Other government regulation promoted labor unions. With the Wagner Act of 1935 the labor unions were protected and a National Labor Relations Board was created to enforce legal sanctions.⁴⁰ The idea was to give labor more power to resist wage cuts, in order to raise consumer income and contribute to recovery.⁴¹ In 1938, the Fair Labor Standards Act established a minimum wage, maximum workweek, and restricted child labor.⁴²

Commercial aviation began anew with the New Deal. The Civil Aeronautics Act of 1938 established routes for passenger service and subsidized the mail service. The subsidies provided a guaranteed return on investment in new aircraft. Works Progress Administration funds were often spent for airports.⁴³

The scandals, stock market crash, and depression called into question the wisdom of the economic system and its leaders. People were desperate because of the slow recovery, continued unemployment and impoverishment. The critics wanted a sharing of wealth. In 1935, the Social Security Act created pensions for the employed, benefits for

³⁸ Dale L. Flesher and Tonya K. Flesher, "Ivar Kreuger's Contribution to U.S. Financial Reporting," Accounting Review (Fall, 1986), p. 421.

³⁹ Bryant and Dethloff, p. 282.

⁴⁰ Kaysen, p. 72.

⁴¹ *Ibid.*, p. 72.

⁴² Bryant and Dethloff, p. 283.

⁴³ *Ibid.*, p. 145.

the dependent, and handicapped, and unemployment insurance. The benefits would be funded by taxes on employees and employers. The wealth tax was raised from 50 to 75 percent to redistribute wealth.⁴⁴

It was World War II rather than government regulation that ended the depression and brought about full employment.⁴⁵ Despite the depression, the American faith in business, its leaders, and capitalism was not drastically altered.⁴⁶ Government had expanded by 1940 but still did not have a significant impact in the lives and businesses of most individuals.⁴⁷

What impact could it have had on Lawrence Sawyer? The government helped to establish the airlines industry with regulation and creation of airports. Sawyer later worked in internal auditing at Lockheed Martin, a large aircraft manufacturer and government defense contractor. Lockheed was a leader in the internal auditing profession and most of Sawyer's writings were a direct result of his experience gained on the job in the aircraft industry. Sawyer wrote his first book before he retired from Lockheed and a coworker said it was a manual of how things were done at Lockheed.⁴⁸

The government regulation could have affected Sawyer in other indirect ways. One of the basic duties of internal auditing is legal compliance. Sawyer never criticized this but accepted it as necessary. Maybe living through the result of having very little government regulation instilled in him a belief that regulation was a necessity.

⁴⁴ Ibid., p. 283.

⁴⁵ Kaysen, p. 72.

⁴⁶ Bryant and Dethloff, p. 263.

⁴⁷ Ibid., p. 305.

⁴⁸ Personal interview with Frederic Mints, retired professor and author, Irvine, California, February 10, 2004.

During the 1930s the government often passed legislation that was later struck down by the Supreme Court. Examples are the Agricultural Adjustment Act of 1933, the National Industrial Recovery Act, and the Air Mail Act of 1930. Perhaps the inefficiency of government, the business scandals, the stock market crash, and the inability of the government to bring the country out of the depression brought about a belief in the need for better management. Sawyer was an advocate of management auditing, which is auditing for effectiveness and efficiency of operations. Sawyer's basic philosophy is that internal auditors should be partners with management, providing whatever information is needed to help the company reach its objectives. The business scandals may have also been a motivating factor in Sawyer's belief in the importance of internal controls and fraud auditing.

The Accounting Profession During the 1930s

Internal auditing was not thought of as a profession apart from accounting. It has been called the stepchild of the accounting profession. From the time when financial statements were required to be audited, the independent auditors have relied upon the work of the internal auditors in conducting their examinations. There was an unwritten rule that to make it in internal auditing (to the top position in charge of the department), requires public accounting experience with a national firm.⁴⁹

The development of the internal audit profession progressed along the same path as the accounting profession only some twenty years later. Like the accounting profession, internal auditing formed a professional organization, disseminated

⁴⁹ Personal interview with D. Eugene Shaeffer, former IIA Director of Education, Altamonte Springs, Florida, March 30, 2004.

information through professional meetings, seminars, and publications, including a monthly journal, required and administered a uniform examination for certification, set a code of ethics and standards for competent performance, and established programs for quality assurance with peer reviews.

During the early 1930s Sawyer was getting his education in law. He may not have been aware of developments in the accounting profession. In the later 1930s while working for the GAO in his job as internal auditor he would have been exposed to news of accounting events. Although his education had not been in accounting, he influenced his younger brother to get a degree in accounting.⁵⁰ This indicates an appreciation for the profession, which was relatively new. Sawyer later took courses in accounting, but did not see the need for another degree, or another certification. He had been granted the Certified Internal Auditor (CIA) designation.

The profession had made progress by this time. The federal income tax in 1913 had expanded the market for professional accountants and given the profession visibility. By 1920 there were laws protecting the use of the title Certified Public Accountant (CPA). Passing of the uniform examination was required to get a license. The professional organization that we know of today as the American Institute of Certified Public Accountants (AICPA) was in place with bylaws and a code of ethics. Several professional journals were published monthly. The first attempt at audit guidance had been made and revised, yet still was not widely accepted. Colleges were offering courses and degrees in accounting even though a degree was not yet required for certification.

⁵⁰ Personal interview with Barbara Witt and Linda Kuhns, daughters of Lawrence B. Sawyer, Sherman Oaks, California, February 9, 2004.

Throughout the 1920s the public believed in the integrity of businessmen and audits were not seen as important. For the first time, large numbers of ordinary citizens were investing in stocks.⁵¹ The number of shareholders in the United States increased from about 2,000,000 in 1920 to about 10,000,000 by 1930.⁵² There were no rules concerning the content of financial statements, no enforceable accounting principles, and no standard audit report form.⁵³ Not only was it not important to users but a general lack of unity in the profession slowed progress toward generally accepted principles and standards.

Independent audits were becoming more common. In 1926 some 90 percent of industrial companies listed on the New York Stock Exchange were independently audited. It was done as a matter of custom and reassurance to the investor but not required.⁵⁴ By 1933 most public manufacturing companies were publishing annual reports, which usually included a sketchy income statement. Their management believed in secrecy to protect information from competitors.⁵⁵ Investors were satisfied with generalities and did not request detailed information.⁵⁶

Sometime after the stock market crash, the independent audit came to be seen as a way to protect owners, oversee management, and restore the public trust in business.⁵⁷ A

⁵¹ John L. Carey, "The CPA's Professional Heritage, Part I," The Academy of Accounting Historians Working Paper Series, Volume 1 (University, Alabama: Academy of Accounting Historians, 1979), p. 5.

⁵² David Hawkins, "The Development of Modern Financial Reporting Practices among American Manufacturing Corporations," The Business History Review (Fall, 1963), p. 145.

⁵³ John L. Carey, "The CPA's Professional Heritage, Part I," p. 5.

⁵⁴ John L. Carey, "The CPA's Professional Heritage, Part II," The Academy of Accounting Historians Working Paper Series, Volume 1 (University, Alabama: Academy of Accounting Historians, 1979), p. 50.

⁵⁵ Hawkins, p. 160.

⁵⁶ *Ibid.*, p. 161.

⁵⁷ Previts and Merino, p. 236.

large number of issuers of securities were found to have grossly misrepresented values and concealed information.⁵⁸

The largest bankruptcy on record was filed in 1932 by Kreuger and Toll, Inc.⁵⁹ Their securities were the most widely held in the world. High dividends or interest was paid on the securities, as high as 20 percent. This money came mostly from issuance of new securities. Profits and assets were fabricated. The company had not published financial statements.⁶⁰ The fraud was highly publicized. Innocent investors had lost millions. There was a senate investigation and calls for legislation to prevent future frauds.⁶¹ Doubt had been raised about the effectiveness of financial reporting and independent audits in general.⁶²

In 1932, the Senate Committee on Banking and Currency investigated the securities markets. Its findings resulted in the securities legislation in 1933 and 1934. The Securities Act of 1933 required independent audits of all companies filing a registration statement. The Securities Act of 1934 created the Securities and Exchange Commission (SEC) and required all companies whose stock was traded on a national exchange to file independently audited financial statements. The SEC was given power to prescribe accounting methods and financial disclosure.⁶³

In 1934, a revision of the audit guidance was made available. This revision came just in time to prevent the SEC from making its own rules on accounting and auditing,

⁵⁸ James Don Edwards, "Public Accounting in the United States from 1913 to 1928," The Business History Review (Spring, 1958), p. 155.

⁵⁹ Flesher and Flesher, p. 421.

⁶⁰ Ibid., p. 423.

⁶¹ Ibid., p. 426.

⁶² John L. Carey, "The CPA's Professional Heritage, Part IV," The Academy of Accounting Historians Working Paper Series, Volume 1 (University, Alabama: Academy of Accounting Historians, 1979), p. 221.

⁶³ Edwards, p. 158.

according to John L. Carey, a full-time employee of the AICPA during this time.⁶⁴ An opinion was to be given as to whether the financial statements were in accordance with accepted accounting principles applied consistently. Acceptable principles included any accounting methods within reason.⁶⁵

The audit guidance was revised again in 1936 but later proved inadequate by a now famous court case, McKesson and Robbins, in 1938. The case shattered the illusions of users that they could rely on the audit report.⁶⁶ An SEC investigation found a fictitious division that took company money supposedly to purchase inventory. The purchases, sales, receivables, and inventory records were all fictitious. Almost three million in cash had been stolen.⁶⁷ The auditors had not physically inspected the inventory and had not directly confirmed the receivables. The case set a precedent for external auditors being held accountable for fraudulent financial statements.⁶⁸

As a result of the case, the Committee on Auditing Procedure was formed and in 1939 changes were recommended to require physical testing of inventory and direct confirmation of receivables with the debtor. Also the relationship between internal control, risk and evidence were spelled out.⁶⁹ These were approved and published in a pamphlet called "Extensions of Auditing Procedure".⁷⁰ This was Statement on Auditing Procedure No. 1. The SEC commended the profession for the new audit requirements and indicated that it would rely on the profession to adopt further auditing procedures.⁷¹

⁶⁴ John L. Carey, "The CPA's Professional Heritage, Part II," p. 52.

⁶⁵ *Ibid.*, p. 53.

⁶⁶ Previts and Merino, p. 295.

⁶⁷ Edwards, p. 163.

⁶⁸ Previts and Merino, p. 295.

⁶⁹ *Ibid.*, p. 294.

⁷⁰ Edwards, p. 170.

⁷¹ Michael Cook, "The AICPA at 100: Public Trust and Professional Pride," Journal of Accountancy (May, 1987), p. 373.

An arrangement was worked out to have almost continuous consultation between Carmon Blough, SEC's chief accountant, and the profession's representatives on specific financial reporting problems. Mr. Blough was well thought of and influential. His recommendations were heeded and the SEC dropped the idea of uniform accounting, letting the profession develop accounting principles, but reserved the right to intervene if necessary.⁷² The Committee of Accounting Procedure (CAP) was formed in 1938.

Lawrence B. Sawyer had been a young adult, working part-time, going to college, and beginning his internal audit career during the 1930's. He would have seen the stock market crash, the depression, and the scandals that resulted in the securities regulation. This had a lasting effect on the accounting profession, as for the first time independently audited financial statements were required. Congress had granted the SEC power to establish accounting and reporting requirements. The profession had united, maintained its independence and laid the foundation for generally accepted standards and principles. The Committee on Accounting Principles was formed and it would later issue pronouncements that would establish generally accepted accounting principles. Also a committee was formed to improve auditing guidance and the first Statement on Auditing Standards had been issued. Sawyer being a witness to these developments may have learned early the importance of a unified profession with standards for performance. The accounting profession grew in importance as investors came to rely more on financial reporting. As the external auditors rose in stature so did the internal auditors upon whose work they relied.

The development of the internal auditing profession was similar to that of the accounting profession. The main difference was that there was no securities regulation

⁷² John L. Carey, "The CPA's Professional Heritage, Part IV," p. 228.

requiring their services. There was no threat of the government taking over their work to force unity and progression toward consistency. There was no legal liability for substandard work to those who benefited from their services to encourage the formation of audit standards. In essence internal auditing did not have the external influences pushing its advancement. The internal auditing profession developed from the hard work of a group of individuals with vision like Lawrence B. Sawyer.

Early History of Internal Audit

Internal audit was considered just a part of the accounting profession prior to 1940.⁷³ From a review of the literature, the profession seems to have really taken off with the formation of the IIA. However, internal auditing was practiced much earlier. Looking at the history of internal auditing and the state of the profession in the 1930's will help to explain what motivated Sawyer's beliefs.

Sawyer gives a very brief history of internal auditing in his book Sawyer's Internal Auditing. Sawyer and most sources state that auditing began in the United States as a check on British investments in U.S. enterprises. However, recent studies indicate internal auditing did precede the reporting to foreign investors.⁷⁴ Auditing provided an independent verification of the balance sheet for bankers and investors. Railroads were the first to adopt internal auditing to give assurance that station masters across the country were properly accounting for receipts. As businesses grew and became more complex, management's ability to monitor operations was limited. Internal auditing

⁷³ James G. Johnston, "An Examination of the Conformance of Bank Internal Auditors with Internal Auditing Standards," (Ph.D. dissertation, University of Missouri-Columbia, 1982), p. 26.

⁷⁴ Dale L. Flesher, Gary John Previts and William D. Samson, "Auditing in the United States: A Historical Perspective" Abacus (February, 2005), p. 37.

provided a solution. It was not until 1941 with the formation of the Institute of Internal Auditors (IIA) that the profession began to develop into what we know it as today.⁷⁵

In the United States the railroad companies of the 1840's used internal auditors to monitor the processing of financial transactions. The companies were growing in size and operations were geographically dispersed.⁷⁶ The railroad auditors' duties in 1867 included checking payment vouchers, securities registers, dividend accounts, cash balances, station revenues and rents due.⁷⁷

In the early 20th century businesses were growing into large complex corporations. A decentralized structure was common with a number of divisions and field units. Internal auditors were needed to help management assess financial and operational controls.⁷⁸ Sawyer reported that during this time the auditors were usually employed in the accounting department where they checked routine financial activities.⁷⁹

In 1928, The National Association of Bank Auditors and Controllers was formed.⁸⁰ The large volume of transactions with highly liquid and negotiable assets had necessitated the implementation of control procedures in banks, and internal auditors were needed to monitor these controls.⁸¹

Victor Z. Brink, a noted internal auditing author and pioneer, wrote a history of the IIA. In it he said that internal auditors were needed to help management because of the growing size and complexity of business. He said that some internal auditors only

⁷⁵ Lawrence B. Sawyer, Sawyer's Internal Auditing. The Practice of Modern Internal Auditing (Altamonte Springs, Florida: IIA, 1996), p. 9.

⁷⁶ J. L. Boockholdt, "Historical Perspective on the Auditor's Role: The Early Experience of the American Railroads," Accounting Historians Journal (Spring 1983), p. 70.

⁷⁷ J. Pollins, "Railway Auditing – A Report of 1867," Accounting Research (January 1957), p. 17.

⁷⁸ Spraakman, p. 22.

⁷⁹ Lawrence B. Sawyer, p. 53.

⁸⁰ Ibid.

⁸¹ Johnston, p. 28.

checked routine activities for compliance, security and fraud. But there were some who were given high organizational status and analyzed more substantive activities, which served management more effectively.⁸² A group of these higher-level internal auditors got together in 1941 to discuss their problems and interests.⁸³ This was the beginning of the IIA.

Dale L. Flesher, author and historian, said in his recently published history of the IIA, that before 1941 internal auditing was a clerical function. Manual bookkeeping required that accounting work be checked for accuracy. The internal auditors were also responsible for catching fraud.⁸⁴ The need for this type of internal auditing did not become common until the growth of the corporate form of business in the early 20th century. These large corporations employed thousands and operated in multiple locations. The job of the internal auditor was to protect assets and most of their attention was on checking financial records and verification of assets.⁸⁵ It was not until the 1940s that internal auditors began to expand their audits to more than the traditional financial audit.⁸⁶

The first book published in the United States on internal auditing was in 1941 and was written by Victor Brink. He said that from the period of about 1916 until 1941 there was a growing interest in internal auditing evidenced by the creation of separate internal auditing departments, which centralized previously practiced and newly instituted

⁸² Victor Z. Brink, Foundations for Unlimited Horizons. The Institute of Internal Auditors. 1941-1976 (Altamonte Springs, Florida: IIA, 1977), p. 3.

⁸³ *Ibid.*, p. 4.

⁸⁴ Dale L. Flesher, The Institute of Internal Auditors. 50 Years of Progress Through Sharing (Altamonte Springs, Florida: IIA, 1991), p. 1.

⁸⁵ *Ibid.*, p. 3.

⁸⁶ *Ibid.*, p. 4.

activities.⁸⁷ Brink explains that the corporate form of business made increased control essential. Internal auditing grew out of the need for owners to check on the management of the company.

Management increasingly relied on accounting data and needed assurance of its reliability. As limits were reached in the size of corporations and markets, the profits had to come from efficiency of operations and good management. Management needed more effective analysis of accounting data.⁸⁸ Also government regulation resulted in increased responsibility of management in general, and in particular for accuracy of information filed with the Securities and Exchange Commission.⁸⁹

A review of published books and journal articles on the subject of internal auditing shows that the literature did not begin to develop well until the 1940s. The Bibliography of Internal Auditing published in 1956 is supposed to contain all material on internal auditing published through 1955. However, there are no listings prior to 1940.⁹⁰ One author concludes that the field of internal auditing had been ill-defined and not recognizable as a distinct part of the accounting profession prior to 1940.⁹¹

The Accountants Index listed internal audit as a subheading under audit with six items during the years 1928 – 1931 and six items for the years 1932 – 1935. Prior to 1928 there was one item listed for internal auditing. Interest seems to have picked up in the late thirties. For the years 1936 – 1939, there were twenty-nine items, approximately the same number as for independent auditing. Then for the period 1940 – 1943 internal

⁸⁷ Victor Z. Brink, Internal Auditing: Its Nature and Function and Methods of Procedure (New York, New York: The Ronald Press Company, 1941), p iii.

⁸⁸ *Ibid.*, p. 5.

⁸⁹ *Ibid.*, p. 6.

⁹⁰ Frederic E. Mints, Bibliography of Internal Auditing to December 31, 1955 (New York, New York: IIA, 1956), p. 3.

⁹¹ Johnston, p. 26.

auditing was moved out from under the auditing heading. It was a separate subject and had seventy-one listings. In 1941, the IIA was founded. However, only fifteen of the seventy-one listings were published by the IIA. Internal auditing seems to have been a hot topic in the mid forties with one hundred and sixty-one listings in the years 1944 – 1947. The institute’s monthly journal, The Internal Auditor, began publication during these years.

The profession seems to have taken root during the early 1940s. What did accountants think about internal auditing in the 1930’s? The subject is only given a few lines of comment in the popular auditing books of the day. In a book on control of fraud published in 1930 the author describes internal auditing as follows:

Some designated department of a business house reviews the transactions - it may even record them as well. The comptroller’s or auditor’s office may carry out the review, or the accounting department may both record and review transactions.⁹²

At this time, internal audit is most often discussed in association with “internal check” or “internal audit check”. The author describes internal check as follows:

Internal check is principally a method whereby an internal audit of the books and records is carried out continually by staff employees separately performing their usual duties. Briefly, the phrase is a technical one used to describe a situation where more than one employee is responsible for recording a transaction completely. A proper articulation of operating routine with the accounting system provides a safeguard against the possibility of fraud and error.⁹³

This term was used to represent what is today referred to as a part of internal control accomplished through separation of duties. In the 1930’s it was referred to as the “automatic audit” and is described as follows:

⁹²George E. Bennett, Fraud: Its Control Through Accounts (New York, New York: The Century Co., 1930), p. 7.

⁹³ Ibid., p. 6.

The general principle of all methods of internal check is that no person in an organization shall be in complete control of any important part of operations. Thus as far as possible, it is intended to assure: (1) Accuracy of all records and books, inclusive of those outside the double-entry records, if any; (2) Definite responsibility for each portion of the work; (3) Speedy detection of fraud, by means of systematic office procedure, scientific division of labor, and continuous supervision and inspection.⁹⁴

Use of mechanical devices such as cash registers and accounting machines is also mentioned as a type of internal check, but the principal method is through the division of work.⁹⁵

In an auditing textbook published in 1930 internal auditing is described as a continuous checking of the financial operations on a day-to-day basis by auditors within the organization.⁹⁶ “It is the purpose of internal audit to see that proper accounting and operating methods are set up to care for the financial transactions as they occur; to see that these methods are followed; and that the records show the true financial conditions as they exist.”⁹⁷ The focus seems to be on catching and correcting errors in accounting. The authors say it is usually a simple matter of arranging the work in the accounting department, dividing it among the employees so as to provide for an internal check. Internal auditing is normally found in large companies with a large number of daily transactions such as hotels in the larger cities, railroads, municipal and county governments and large industrials.⁹⁸

Many companies relied on the internal auditors to certify the accuracy of their published annual reports to stockholders. The authors say that due to policies and

⁹⁴ Ibid., p. 7.

⁹⁵ Ibid.

⁹⁶ J. F. Sherwood and Roy T. Culey, Auditing, Theory and Procedure (Cincinnati, OH: South-western Publishing Company, 1930), p. 23.

⁹⁷ Ibid., p. 24.

⁹⁸ Ibid.

influences which may not be the best, these financial statements may not show the true financial conditions. They say that there is a growing demand for external periodic audits made by public accountants in addition to the regular internal audit made by company employees.⁹⁹ It was recognized that an internal audit could greatly aid the external audit in that much routine checking could be eliminated.¹⁰⁰ The main author, but with a different coauthor, wrote another textbook nine years later, in 1939, with no changes at all made to the description of internal auditing.¹⁰¹

In another auditing text, published a few years later, the problem of independence is mentioned. The work was described as an extension of the system of internal check, checking in detail the original records of all transactions. As employees were working under the direct control of management, there was no assurance to outsiders or owners that the accounts were correct.¹⁰²

Robert H. Montgomery is probably the most well known auditing textbook author. In his 1934 book he described internal auditing as part of the system of internal check. He described the internal check as above as a continuous audit of the details of the business accomplished through division of work. Under a subheading he described the internal audit department. Management and directors of many large corporations depended upon it for the verification of detailed records and safeguarding of assets.¹⁰³ Most of the material was directed towards the extent to which the external auditor could rely upon the work of this department. Montgomery said a tremendous volume of

⁹⁹ Ibid.

¹⁰⁰ Ibid., p. 25.

¹⁰¹ J.F. Sherwood and D. J. Hornberger, Fundamentals of Auditing (Cincinnati, OH: South-western Publishing Company, 1939), p. 23.

¹⁰² R.G.H. Smails, Auditing (Toronto, Canada: Sir Isaac Pitman & Sons, 1933), p. 4.

¹⁰³ Robert H. Montgomery, Auditing, Theory and Practice (New York, New York: The Ronald Press Company, 1934), p. 64.

transactions would make it absolutely necessary to design the audit program to make the greatest possible use of the internal audit. Their work was to be supplemented if found to be incomplete. The following describes what the duties of internal auditors were:

In practically all cases, the internal audit will include a verification of bank balances, petty cash funds, and current assets held at branch offices. It may also include periodical confirmations of accounts receivable, tests of book inventory records by physical count, and a continuous audit and approval of voucher checks prior to signature. Little attention is usually given by the auditing department of property accounts, of depreciation and depletion, questions of accounting principle or of policy or the form of the company's published financial statements.¹⁰⁴

This author is very clear about independence. He states that the auditors are employees and have the point of view of management and are therefore not impartial. They can not be relied upon in matters of judgment. "The more independent the auditing department is from the accounting department, the more reliance can be placed upon its work by the outside auditors."¹⁰⁵

An auditing text published the year Sawyer began work in 1937 described internal auditing similarly. The public accountant was instructed to consider the extent of verifications and thoroughness and capability of the internal auditors when relying upon their work in such areas as footings and postings.¹⁰⁶

In all the auditing books examined, the subject of internal auditing consists of a few paragraphs at most. Perhaps there is not more written in the texts about internal auditing because it was so basic, routine, and limited in nature. A review of journal articles indicates that although some developments were at least envisioned by 1941, the 1930's was a period of stagnation.

¹⁰⁴ Ibid., p. 65.

¹⁰⁵ Ibid.

¹⁰⁶ Paul E. Bacas, John T. Madden, and Arthur Henry Rosenkamppff, Auditing Procedure (New York, New York: The Ronald Press Company, 1937), p. 189.

An early Journal of Accountancy article entitled “Internal Auditing”, from 1928, was more on the topic of embezzlement, the methods and preventative measures. One measure was the installation of a modern system of accounting, which provided a thorough internal audit on all financial transactions.¹⁰⁷

The system described was the “internal check” described above but did include a continual inspection and supervision of work. The term internal check was actually used throughout the article. The author described how the work could be divided when there are two accounting clerks to provide a fairly good system of internal check.¹⁰⁸

As a business grew and clerks were added, the work could be further divided until a complete system of internal audit existed. Then the work of all clerks and bookkeepers would be carefully reviewed by an efficient auditing department.¹⁰⁹

A 1929 article written by a CPA with Haskins and Sells, used the term internal audit control to describe principles of internal accounting control. Examples included reconciliation of bank statements and separation of the functions of cashier from bookkeeper. Once such a system was in place, the officials of the company should review its operation periodically to make sure the procedures are being followed.¹¹⁰

An article written in 1931 described internal audit in terms of internal check and control safeguards. The chief financial officer was said to be responsible for organizing an efficient accounting system and maintaining supervision of all accounts and records.¹¹¹ That officer should have access at any time to the records and authority to apply any

¹⁰⁷ Alexander A. Piper, “Internal Auditing,” Journal of Accountancy (June, 1928), p. 447.

¹⁰⁸ Ibid., p. 445.

¹⁰⁹ Ibid., p. 447.

¹¹⁰ A. F. Wagner, “Internal Audit Control in a Moderate Sized Business,” The N.A.C.A. Bulletin (March, 15, 1929), p. 927-929.

¹¹¹ Hy. Hacking, “Internal Audit – Its Basis, Scope and Function,” The Accountant (September, 1931), p. 405.

test.¹¹² There should be no choice in detail checking, everything must be checked; every department must be checked and no accounts left out.¹¹³ This work was for the detection and prevention of fraud and errors and motivation for the bookkeepers to stay up to date in their work.¹¹⁴

In 1936 there was a good description of the state of American internal auditing published in the National Association of Cost Accountants (N.A.C.A.) Bulletin. An entire section was designated for the topic and included three articles. As an introduction the editor wrote that many large companies have a separate auditing department but in smaller companies the duties were delegated to someone in the accounting department. He stated that there is a need for constant internal audit and control in every business with internal check and audit of all routine transactions.¹¹⁵

The first article was a description of the internal auditing department at a large oil company by its head auditor. A definition was quoted from "Accounting Terminology" published by the American Institute of Accountants. "An audit made by members of the staff of the concern audited. Frequently staff auditors, traveling auditors, or inspectors are employed to make continuous or periodical audits of some or all of the transactions. The scope is not definite and their work is frequently supplemented by examinations made by public accountants."¹¹⁶ In describing actual practice he made the following statement. "In some companies internal auditing may refer to the specific auditing work

¹¹² Ibid., p. 405.

¹¹³ Ibid., p. 405.

¹¹⁴ Ibid., p. 407.

¹¹⁵ "Internal Auditing," N.A.C.A. Bulletin (May 1, 1936), editorial.

¹¹⁶ G. T. Bodman, "Internal Auditing for a Large Oil Company," N.A.C.A. Bulletin (May 1, 1936), p. 807.

of an internal staff and in others only to a routine system so designed as to afford an automatic internal check.”¹¹⁷

In describing the function of audits he mentioned prevention and detection of fraud as an important part of the work. Other purposes included verification of the correctness of the records, safeguarding of funds, compliance with bonding company requirements, and compliance with the requirements of the Securities and Exchange Commission and with company regulations. Another duty was the supervision of accounting policy, procedures and forms to assure division of responsibilities and assure an adequate automatic internal audit of all transactions.¹¹⁸ Detail procedures were discussed and included check and verification of assets and records, reconciliations, confirmations, inspections, and a reasonable test check of entries to all accounts.¹¹⁹ This was the first mention of checking on a test basis by an internal audit department.

Also of interest under detailed procedures for inspection and economy, the author described a surprise audit of offices, desks, and files to look for hidden records and surplus office supplies. Bodman suggested that the auditor recommend economies of operation in the conduct of the office staff duties.¹²⁰ In this example any operational type auditing was limited to the office staff.

In the article the SEC instructions to Form 10 were quoted, which specified that the external auditor could use the work of the internal auditor.¹²¹ Bodman wrote that this means a functioning internal audit department can materially decrease the audit time of the public accountant.

¹¹⁷ Ibid.

¹¹⁸ Ibid., p. 810.

¹¹⁹ Ibid., p. 818.

¹²⁰ Ibid., p. 819.

¹²¹ Ibid., p. 809.

The importance of independence was recognized as he recommended the head auditor report directly to the chief executive and that the department have no other operating or accounting duties. This would promote unbiased findings, critical analysis and a frank statement of conditions.¹²²

The second article was written by a practicing CPA and is entitled “Internal Audit Control”. This type of control was necessary to protect property, eliminate waste and inaccuracy in operations and assure correct recording of transactions.¹²³ The definition was given as “the arrangement of routine whereby the work of each employee is counter checked by the work of another employee”.¹²⁴ The minimum duties were itemized as follows:

- a. Verification and reconciliation of bank balances.
- b. Verification of petty cash funds.
- c. Verification of branch operations and current assets held at branch offices.
- d. Periodical confirmation of receivables.
- e. Tests of book inventory records by physical count.
- f. Test of the approval of vouchers before payment.
- g. Verification of cash sales.¹²⁵

The author states that the head auditor should report to the Comptroller.¹²⁶ Today this would be viewed as a lack of independence in the internal audit function.

In the conclusion the author shared his vision for an expanded scope beyond accounting, compliance and safeguarding of assets. “Internal audit plays an important

¹²² Ibid., p. 809.

¹²³ Victor H. Stempf, “Internal Audit Control,” N.A.C.A. Bulletin (May 1, 1936), p. 820.

¹²⁴ Ibid., p. 821.

¹²⁵ Ibid., p. 824.

¹²⁶ Ibid.

part in supplying reliable data, upon the analysis of which future remedial measures depend relative to the elimination of waste, the institution of economies, and in the determination of standards of performance. Management has found internal audit an essential factor in keeping posted on the state of the business and in bringing to light all material facts relative to the conduct of the business.”¹²⁷ This definition was later used by the IIA in the 1940’s. Even then it was more of a goal to work towards, rather than a reflection of the true state of the profession at the time.

The expanded scope was definitely not the state of affairs in 1936. As stated in the third article also written by a practicing CPA, “The principal function of auditing is to insure accuracy in accounting records and to see that all cash, materials, and other evidences of value are properly accounted for.”¹²⁸ The duties were of an accounting nature and similar to what others have said. In addition the internal auditor should be thoroughly familiar with all the operations of the business, so that any unusual transactions would be noted as well as breakdown or weaknesses in the system of control.¹²⁹ Most importantly this author states the head auditor should not be subject to supervision by any department executive but should report directly to the board of directors.¹³⁰ This was practically unheard of at the time as a survey several years later indicated.

The N.A.C.A. published the results of a survey on internal auditing in 285 U.S. medium and large companies in 1939. The survey was done to find out about current practice, as internal auditing had been getting a lot of attention. Questionnaires were

¹²⁷ Ibid., p. 836.

¹²⁸ Henry M. Thomson, “Internal Auditing for Trading and Manufacturing Concerns,” N.A.C.A. Bulletin (May, 1, 1938), p. 836.

¹²⁹ Ibid., p. 844.

¹³⁰ Ibid., p. 845.

mailed to N.A.C.A. members. Only 101 companies had internal auditor(s). Of these, 38% reported to the Controller, 16% to the Treasurer, and 19% to the President. Only 1% reported to the Board of Directors.¹³¹ In the companies that had no designated internal auditor, the controller, treasurer or chief accountant performed the duties of an auditor.¹³² The objectives of internal auditing were listed and ranked. The most highly ranked were preventing and detecting fraud, insuring accuracy of transactions and financial statements, auditing the accounts at branch locations, and controlling and minimizing costs.¹³³ The remaining discussion concerned methods and procedures of internal check commonly used, such as bank reconciliations, reconciliations of subsidiary to general ledger, and reconciliation of perpetual inventory records to physical count.

In a Journal of Accountancy article in 1939 internal auditing was reported to be a program of more/less independent and detached safeguards to serve as tests that the internal check was being properly maintained.¹³⁴ The author, Victor Brink, said that officers and executives could do this work, or an outside agency, the external auditor, or an internal audit department. Internal auditors were described as full-time specialists with no operating responsibility, experts in their company's operations and in its industry. They performed a variety of other services for management (no details given) but one of its most important was internal check.¹³⁵

There was a problem in accounting with terminology but especially in internal auditing because of the rapid development and newness of developments in the field.

¹³¹ Research and Technology Service Department, N.A.C.A., "The Place of Internal Auditing in Industrial Companies," N.A.C.A. Bulletin (June 1, 1939), p. 1289.

¹³² *Ibid.*, p. 1286.

¹³³ *Ibid.*, p. 1291.

¹³⁴ Victor Z. Brink, "Internal Check," Journal of Accountancy (March 1939), p. 145.

¹³⁵ *Ibid.*, p. 147.

The terms internal check and internal audit were sometimes used synonymously in the literature and by those in the profession.¹³⁶ It is interesting that many of the journal articles listed as internal audit in the Accountant's Index were really internal control related. Referring to the literature there often is no mention of the term internal audit at all, but internal check or accounting systems. This shows that there may not have been a clear definition of internal auditing during this period (i.e., it was a methodology, not a profession). About the literature prior to 1940, Brink said it concerned itself with internal check in its more narrow aspects and not with the broader and more significant phases of internal auditing.¹³⁷ He was also critical of the term automatic audit.¹³⁸

The problem was so significant that it had been addressed by a special committee of the American Institute of Accountants, predecessor of the AICPA, whose report was published in 1931. This group made a clear distinction between the terms. However, confusion still persisted in the literature of the 1930's.

Several pages of Brink's book, Internal Auditing, published in 1941, are dedicated to a discussion of the differences between the terms. The automatic audit, or continuous audit, more properly called internal check, he stressed, is part of the accounting system. It is a current procedure, taking place before the transaction is actually completed.¹³⁹ Internal auditing personnel should not be used in the current handling of transactions. Auditing is done at a later time when verification is made to ascertain whether routines are being properly followed and if adequate.¹⁴⁰

¹³⁶ Ibid., p. 14.

¹³⁷ Brink, Internal Auditing: Its Nature and Function and Methods of Procedure, p iii.

¹³⁸ Ibid., p. 16.

¹³⁹ Ibid.

¹⁴⁰ Ibid., p. 15.

Brink was concerned about the general lack of understanding of the nature and scope of internal auditing.¹⁴¹ He also had a vision for internal auditing moving away from mechanical checking of arithmetical accuracy and detection of fraud and error toward more critical and constructive analysis of all the accounting and financial aspects of the company's operations.

Brink was critical of the views expressed in the literature of the times that described accounting and auditing as a police function, protecting property and guarding against errors.¹⁴² He stated that checking of accounts is not to be taken lightly and serves a useful and necessary purpose, but it should be just the starting point.¹⁴³ There is a whole range of activities and services that can be provided such as analysis and appraisal for possible improvement in the accounting system.¹⁴⁴

The duties or services of the internal auditors per Brink's book include appraisal of procedures, training and assistance to personnel, and miscellaneous.¹⁴⁵ The appraisal of procedures is mainly concerned with accounting and financial matters but he says the possibility of constructive suggestion in other aspects of operations exists.¹⁴⁶ He states that this is not the typical or normal practice at the present time (1940). The profession was in a state of rapid change and it reflected the broader view that he believed to be that of the leaders of the profession and the trend of future internal auditing developments.¹⁴⁷

Internal auditing during 1936 when Sawyer began his career involved accounting work more than auditing. Various reconciliations and checking mathematical accuracy of

¹⁴¹ Ibid.

¹⁴² Ibid., p. 10.

¹⁴³ Ibid., p. 11.

¹⁴⁴ Ibid., p. 12.

¹⁴⁵ Ibid., p. 22.

¹⁴⁶ Ibid., p. 31.

¹⁴⁷ Ibid., p. 22.

the accounting were done. Vouchers were audited before the checks were issued. Most often the auditor worked under the chief accounting officer. Although the literature hints at expanded scope of responsibilities and greater independence, this was not the reality. Sawyer saw this and experienced it at the GAO where he first worked. He later saw the possibilities of what the profession could be in the 1950's when he worked for one of the most progressive companies in the field of internal auditing at Lockheed Aircraft Company. Lockheed auditors had the broader view that Brink had envisioned. Sawyer was highly motivated to raise the stature of the profession in the eyes of management, the public, the business community and the internal auditors themselves.

GAO Environment

In 1936, the GAO employed over 4,000 personnel who worked in a dozen buildings in the Washington, DC area. According to the 1937 annual report, some of the buildings were poorly heated and lighted, with little or no ventilation. In 1922, it was reported that the Comptroller had implemented strict work rules such as no visiting or loitering and ringing of bells for the beginning and end of the workday and 30-minute lunch break. He expected hard work and high ethical and professional conduct.¹⁴⁸ One story is told of an employee that had had enough. He gathered the stacks of papers from his desk, went to a window, threw it open, tossed out the papers, put on his coat and hat, left, and was never seen again. The Comptroller had a reputation for being harsh and hard-hearted and was known for sticking to the letter of the law. He allowed no

¹⁴⁸ Roger R. Trask, GAO History 1921-1991 (Washington, D.C.: GAO, 1991), p. 10.

exceptions in the allowance of expenditures or even disallowed them if he thought the amount excessive.¹⁴⁹

When Sawyer began work as an internal auditor with the GAO in 1937, internal audit functioned as a voucher-checking unit.¹⁵⁰ In the late 1930s accounting in the federal sector lagged significantly behind advancements made in the commercial sector. Federal accounting and auditing was preoccupied with detailed voucher examinations and other detailed verifications.¹⁵¹

Sawyer did not like his work at the GAO because it was basically number checking. We are not sure what his duties were, but family members say it consisted solely of auditing numbers and that he did not work in the capacity of attorney.¹⁵² Vouchers were checked by clerks so this was most likely Sawyer's position. It is possible he could have used his legal background in some ways such as testing compliance to be certain expenditures were proper. There was extensive legal work done to determine if an expenditure or receipt was in accordance with the law. Other legal work included working with the Justice Department reviewing settlements, preparing reports on claims filed, and preparing cases for disallowed claims or to collect from debtors. The lawyers conducting such work were referred to as the professional staff.¹⁵³ Perhaps Sawyer planned to progress upwards within the GAO using his legal background.

¹⁴⁹ Ibid., p. 16.

¹⁵⁰ Ibid., p. iii.

¹⁵¹ Charles A. Bowsher, "Federal Financial Management: Evolution, Challenges and the Role of the Accounting Profession," Journal of Accountancy (May, 1987), p. 283.

¹⁵² Witt and Kuhns interview.

¹⁵³ Trask, p. 11.

While at the GAO, Sawyer definitely would have attained experience in the most basic of auditing tasks. Before he left, there was some sampling being done, some reliance on internal controls, and some operational-type auditing. From these developments, he probably could see that the profession of internal auditing had the possibility of developing into much more than number checking, gaining self-respect and respect from others and providing a more rewarding work experience for auditors and their employers.

It was not until after 1945, those GAO internal audits went beyond checking expenditures. The GAO was authorized to audit government corporations for the first time. T. Coleman Andrews was brought in from a public accounting firm to oversee the new division.¹⁵⁴ Rather than look at each transaction, sampling was used. For the first time internal controls were reviewed. Legal compliance was still a major concern but for the first time effectiveness of management decisions was questioned.¹⁵⁵ It seems that this was only for the corporate audits. Then in 1950, evaluation of internal control in determining procedures and extent of voucher checking was made the law for all GAO audits.¹⁵⁶ The emphasis was still clearly on financial issues rather than operational efficiency for most GAO audits. During the period of 1954 to 1965, GAO's work was concentrated on financial aspects but gradually more attention was given to program objectives and accomplishments.¹⁵⁷

In the early fifties a major emphasis on audits of defense contracts began designed to "seek out excesses, waste, and extravagance". The number and critical nature of

¹⁵⁴ Ibid., p. 28.

¹⁵⁵ Ibid., p. 29.

¹⁵⁶ Ibid., p. 34.

¹⁵⁷ Ibid., p. 55.

reports increased through the fifties and early sixties. The Department of Defense and contractors began to object to the volume and tone of the reports and this resulted in controversy in the press and congressional hearings. The Comptroller at the time resigned during these hearings for health reasons in 1965.

In the mid-fifties there was a scandal known as the “zinc stink” which involved questionable purchases of zinc. Under testimony the Comptroller admitted that there were errors in the GAO report. The GAO was criticized and questioned concerning its investigations. It led to the Comptroller’s resignation and reorganization of the agency in 1956.¹⁵⁸ This was the year Sawyer left the GAO and began work at Lockheed.

The scandals resulting from reporting problems at the GAO could very well be the motivation behind Sawyer’s recommendations for effective report writing. The government had begun to change its audit philosophy in 1945 with the corporate audits to evaluate program effectiveness. For the first time government auditors relied upon internal controls and used sampling to reduce audit time. This was probably where Sawyer first learned that internal auditing could be much more than voucher checking. He later wrote about statistical sampling and became quite the expert in the subject when it was not yet a commonly used technique with internal auditors.

Sawyer’s efforts to improve the profession through speaking and writing grew out of the contrast between the two very different types of auditing that he had experienced the voucher checking at the GAO and the operational auditing that was done later at Lockheed. It is said that Sawyer hated internal auditing, or rather internal auditing as it was in the early days at the GAO.¹⁵⁹

¹⁵⁸ Ibid., p. 46.

¹⁵⁹ Witt and Kuhns interview.

CHAPTER IV

THE GRANDFATHER DIALOGUES

The purpose of this chapter is to analyze the publications known as The Grandfather Dialogues, a series of short articles published in The Internal Auditor, the professional publication of the Institute of Internal Auditors (IIA) during the years 1970 through 1974. The articles consisted of a conversation between a grandfather and grandson. The topic of conversation was internal auditing. Sawyer got the title “Grandfather of Internal Auditing” from these dialogues. The content of these conversations will be categorized and summarized. The ideas will be compared to a timeline of internal auditing professional events to determine if the publications had an effect on the internal auditing profession. Also the comments from readers will be considered.

There were twelve articles published in The Internal Auditor during the years 1970 through 1974. Table three includes a listing of these articles. Eight of these articles along with ten new ones were published in 1974 by the IIA in the form of a book entitled Modern Internal Auditing What’s It All About? The Grandfather Dialogues. Table two lists the 18 chapters in the book. It is unknown why the other ten pieces were not published in the journal or why four that were published in the journal were not included in the book. Discussions with current IIA staff and family of Sawyer did not yield any insight. Perhaps plans had already been made to publish the book and include the new pieces in that format so there was no need to also publish them in the journal. Interested

readers could have bought the book and had the new pieces available to them for a small price of \$3.95. If all the material had been available from the journal, some book sales might have been lost. In an advertisement for the book in the journal it was proclaimed that half of the book had never appeared in print before, so this was a selling point.¹

Others might speculate that the additional pieces were not published in the journal because of complaints from readers. There were several letters to the editor of the journal with negative comments about the articles that had been printed.² Perhaps the editors decided then to stop publishing the pieces in the journal but instead to make them available to those who liked the articles in the form of a book. In the preface to the book, Sawyer says there were bound to be disagreements with some of the “pontifications uttered to Randy” because the profession was still growing.³ However, the letters to the editor were not disagreements with the technical information, but with the appropriateness of the writing style for a professional journal.

There is also a mystery about four articles published in the journal, which were omitted from the book. The articles entitled “What’s the internal auditor’s responsibility for preventing and detecting fraud, Grandfather?” and “What’s the internal auditor’s responsibility for corrective action, Grandfather?” were both published in The Internal Auditor in the same year that the book was published. It could be that these two articles were written after the material for the book had gone to press.

¹ The Internal Auditor (May/June 1975), p. 7.

² These letters are included in Appendix H.

³ Lawrence B. Sawyer, Modern Internal Auditing: What’s It All About? The Grandfather Dialogues (IIA, Orlando, Florida, 1974), preface. This preface is included in Appendix I.

Table 2

List of the Chapters in
Modern Internal Auditing: What's It All About?
The Grandfather Dialogues

1. What's an Internal Auditor?
 2. What's a Deficiency Finding?
 3. What is Fraud?
 4. What is Evidence?
 5. What's an Audit Program?
 6. I'm Confused About Confidence Level and Precision
 7. Does Sampling Have to Be Statistical?
 8. What's EDP?
 9. How Do You Design an EDP System?
 10. How Do You Solve Problems?
 11. What Is Operations Research?
 12. What Is Monte Carlo Simulation?
 13. Why Do not People Like Internal Auditors?
 14. Must the Auditor Be a Nice Guy?
 15. What Is an Internal Audit Report?
 16. How Do You Make Oral Reports?
 17. How Do You Write an Audit Report?
 18. What's Up Ahead?
-

Table 3

List of the Published Articles in the Series:
The Grandfather Dialogues
Published in The Internal Auditor, 1970 – 1974

1. “What’s an internal auditor, Grandfather?” (July/August 1970)
 2. “How does an internal auditor do his job, Grandfather?” (November/December 1970)
 3. “How do you get to be an internal auditor, Grandfather?” (May/June 1971)
 4. “What’s a deficiency finding, Grandfather?” (July/August 1971)
 5. “What is fraud, Grandfather?” (September/October 1971)
 6. “Statistics confuses me, Grandfather.” (November/December 1971)
 7. “What is evidence, Grandfather?” (January/February 1972)
 8. “What is an internal audit report, Grandfather?” (July/August 1972)
 9. “How do you make oral reports, Grandfather?” (September/October 1972)
 10. “How do you write an audit report, Grandfather?” (January/February 1973)
 11. “What’s the internal auditor’s responsibility for corrective action, Grandfather?” (March/April 1974)
 12. “What’s the internal auditor’s responsibility for preventing and detecting fraud, Grandfather?” (May/June 1974)
-

The format is in the form of a conversation and is a light and readable style written so that anyone could understand and enjoy it, even a teenager.⁴ There are numerous charts, illustrations and examples.⁵ Many examples use the sport of baseball, something with which a teenage grandson could relate well. The conversations were between Lawrence B. Sawyer, the author, and his grandson Randy, age 15. In the preface Sawyer states that his grandson read all of the dialogues and understood the gist of the topics if not all of the concepts.⁶ The cover of the book proclaims that the dialogues did take place between Sawyer and his grandson, for the most part. The grandfather and grandson actually performed some of the conversations as skits at seminars and conferences and were well received.⁷ The topics include basic and technical concepts of internal auditing. Some examples of basic subjects are what is internal auditing and how does one get to be an internal auditor. More technical topics include Monte Carlo Simulations and statistical sampling. A sample of this style of writing is included in Appendix J.

There was nothing new to the profession in these articles as Sawyer said in the preface, each of the dialogues was founded on accepted theory or actual practice.⁸ The purpose was not to explain new concepts to practicing internal auditors. An advertisement for the book in The Internal Auditor, stated that the purpose was to explain internal auditing concepts to management, friends, family, and new staff.⁹

⁴ See Appendix J for an excerpt from the book.

⁵ The Internal Auditor (May/June 1975), p. 7.

⁶ Sawyer, Modern Internal Auditing: What's It All About? The Grandfather Dialogues, preface.

⁷ Ibid., book cover.

⁸ Ibid., preface.

⁹ The Internal Auditor (May/June 1975), p. 7.

Sawyer's preface to the book declares a two-fold purpose. One was to tell the story of internal auditing as an exciting profession to the non-practitioner and set the public straight that internal auditing is not about adding columns of figures. Also he felt it was important to promote the profession to young people as a career choice. The other objective was to help make practitioners more comfortable with some of the tools they should have been using. He states in the preface that there may be some disagreements but that dispute is the mother of clarification and he dedicates the book to ultimate clarity.¹⁰ The entire preface is reproduced in Appendix H.

Sawyer gives an overview in the preface as follows:

“Modern Internal Auditing: What’s it all about?” puts our profession in perspective and shows how it has been elevated far above the barren ground of old-fashioned figure checking. The articles on audit programs and deficiency findings are workable and useful. The articles on fraud and evidence are legally sound and synthesize some of the principles the auditor should be guided by. The articles on sampling, both statistical and nonstatistical, are accurate, yet readily understandable. Those on EDP provide basic grounding and hints of audit approaches. The article on problem solving gives unique answers to old questions. The articles on operations research pierce the murky fog that too often has shrouded this potentially valuable instrument for service to management. The articles on getting along with people contain the ingredients of sound behavioral science theory, leavened by the yeast of actual experience in the practice of modern internal auditing. The articles on reporting are bottomed on years of successfully getting through to management. And finally, there is a glimpse of what the future should hold for the internal auditor.¹¹

A Two-Fold Purpose

In the preface to the book, Sawyer explains a two-fold purpose. One purpose is to explain the internal auditing profession to the public. The other purpose is to present

¹⁰ Sawyer, Modern Internal Auditing: What’s It All About? The Grandfather Dialogues, preface.

¹¹ Ibid.

some tools that practicing internal auditors should be using in their work.¹² The dialogues can be categorized according to these two purposes. Table 4 shows the dialogues by topic and purpose. About one half seem to describe the internal auditor, the profession of internal auditing, and the work of the internal auditor to the novice. This seems to satisfy one of the two purposes set out in the preface, which is “to tell our story – an exhilarating story that cries to be told to the nonpractitioner.”¹³ The other half of the dialogues seems to be about the tools internal auditors could use in their work. These seem to satisfy Sawyer’s other purpose, which was “to make more comfortable in the hand of the practitioner some of the tools he has been or should be using.”¹⁴

To Tell Our Story

These eleven articles describe what the internal auditor does, what characteristics and qualifications are required, and a brief overview of the work involved in the audit process including the audit program, evidence, deficiencies, reporting, and fraud. The motivation for the dialogues directed towards the nonpractitioner seems to have been public perception. In the preface to the book Sawyer has this to say,

Too long has internal auditing and all the many tools it uses been made to seem arcane by bookish writing. Too long has our profession been equated with accounting, and regarded in the eyes of the public as an attempt to see that dreary columns of figures have been added correctly. Too long does the acknowledgment that one is an internal auditor produce either a blank stare and a noncommittal ‘Oh,’ or a cheerful, ‘Of course, you’re an accountant.’ Too long have our spouses and offspring hesitated to tell their friends what we do – either because they do not understand modern internal auditing themselves or because they do not know how to explain it.¹⁵

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

Table 4

Dialogues by Purpose and Topic

Purpose/Topic/Title

To explain the profession to the public:

Defining the Internal Auditor:

What's an Internal Auditor?

Must the Auditor Be a Nice Guy?

How Does an Internal Auditor Do His Job, Grandfather?

How Do You Get To Be An Internal Auditor, Grandfather?

The Work of the Internal Auditor:

What's An Audit Program?

What's a Deficiency Finding?

What is Evidence?

What Is An Internal Audit Report?

What's the Internal Auditor's Responsibility for Corrective Action,
Grandfather?

What is Fraud?

What's the Internal Auditor's Responsibility for Prevention and Detection
of Fraud, Grandfather?

To explain a tool or skill that a practicing internal auditor should be using:

Statistical:

I'm Confused About Confidence Level and Precision

Does Sampling Have to Be Statistical?

Information Technology:

What's EDP?

How Do You Design an EDP System?

Reporting:

How Do You Make Oral Reports?

How Do You Write an Audit Report?

Other:

How Do You Solve Problems?

What is Monte Carlo Simulation?

What Is Operations Research?

Why Do not People Like Internal Auditors, Grandfather?

What's Up Ahead?

Sawyer explains in chapter one of the book that the internal auditor serves as the eyes and ears of management.¹⁶ They report what is going on in the organization, check the work of others, and watch out for errors and theft.¹⁷ The auditor is honest, accurate, faithful, and hardworking. He or she is a problem solver who uses his or her talents to save the company money and increase profits.¹⁸ The auditor is concerned with more than just numbers - asking why, evaluating, and suggesting new ways to organize work and thinking like a manager. It is exciting work always dealing with new people and new problems. These problems challenge the auditor with mysteries to be solved. People respect the internal auditor and he or she has self-respect.¹⁹

The internal auditor must be nice to get the job done without upsetting people. But being nice is not enough because nice just gets tolerance. It does not get cooperation. This Sawyer explains is actively participating in problem solving.²⁰ The auditor must sell himself or herself to the manager to get true cooperation. The auditor must show management how the audit services can be useful, like having the services of a consultant at no additional cost.²¹ Then the manager and the auditor can form a problem-solving partnership.²²

Sawyer explains the work of an internal auditor as analyzing details and facts and then interpreting them. The interpretation involves determining what the effect is and if it is something management should know about.²³ The internal auditor must think like a

¹⁶ Ibid., p. 2.

¹⁷ Ibid., p. 3.

¹⁸ Ibid., p. 4.

¹⁹ Ibid., p. 5.

²⁰ Ibid., p. 109.

²¹ Ibid., p. 110.

²² Ibid., p. 112.

²³ Lawrence B. Sawyer, "How does an internal auditor do his job, Grandfather?," The Internal Auditor (November/December 1970), p. 71.

manager and only spend time on analysis that would be helpful to the manager.²⁴ The internal auditor is not the manager and is not trying to do the manager's job for him. Rather he or she is trying to make sure the manager has the right information, that it is accurate and that it is timely.²⁵

The qualifications for an internal auditor do not require an accounting degree. Sawyer does recommend it, even though he didn't have one himself. He said it is the best way to get a good understanding of business records and the information that managers need to run their businesses.²⁶ He says that many CPAs are just experts in numbers. To be a good internal auditor a person must be able to deal with things and people instead of only the numbers. He also recommends a master's degree in business administration for a good understanding of business management.²⁷

Then there are certain qualities that are essential. The first letter of these qualities spells out the word auditor. The internal auditor must be adaptable to be at ease in all kinds of different environments, work with different types of people and react quickly to new problems.²⁸ He or she deals mostly with people and understanding them is critical. What their problems are, how they will react, and how their background determines their thinking are all important. Determination is necessary to keep going until the auditor is satisfied that problems are getting the attention they deserve. The auditor must be independent and make sure that opinions are his or her own and not feel beholden to anyone. This characteristic is so important that Sawyer states that the auditor cannot be

²⁴ Ibid., p. 72.

²⁵ Ibid., p. 73.

²⁶ Lawrence B. Sawyer, "How do you get to be an internal auditor, Grandfather?," *The Internal Auditor* (May/June 1970), p. 56.

²⁷ Ibid., p. 57.

²⁸ Ibid., p. 57.

of value to management without it. The auditor must be trustworthy in presenting the whole story that is true in every detail. Objectivity is not having any preconceived ideas but looking at the facts and telling it like it is, not how he or she would like it to be.²⁹ The last characteristic is responsibility for doing a complete job and the best job that the auditor can.³⁰

With these qualities the internal auditor can then learn to do the work. This includes preparing the audit program, gathering evidence, evaluating the findings, making presentations and above all continuing to learn. To be of service to management the internal auditor must keep up to date with tools and methods.³¹

Another important part of the internal auditor's life is the humanities. His interests should be varied because he deals with people that have varied interests. He should have an interest in the cultural side of life, such as literature, history, languages, and philosophy. He should take courses, join professional organizations, and read professional publications. "There are no limits to the internal auditor's job. We must be constantly pushing to expand our abilities in an expanding environment."³²

The work of the internal auditor is further explained with conversations about the topics of the audit program, evidence, deficiency findings, audit reports, corrective action, and fraud. Sawyer's ideas on each topic are summarized in the following paragraphs.

An audit program is explained as the plan for the work that will be done on the audit like an itinerary for a trip. It helps the auditor know ahead of time what needs to be

²⁹ Ibid., p. 58.

³⁰ Ibid., p. 59.

³¹ Ibid., p. 59.

³² Sawyer, "How do you get to be an internal auditor, Grandfather?," p. 60.

done and helps avoid missing something. It is just a plan and should be flexible to allow for changes. Information must be gathered prior to making the plan. The type of audit must be considered along with the expertise of the auditor.³³ A good audit program will be based on the activity's objectives. It should get the auditor thinking like the president of the company. Not only are the rules being followed, but are the rules the right rules?

Evidence gives the auditor proof upon which to base an opinion. It is different from legal evidence because the auditor is not trying to convince a judge and jury, only himself or herself and perhaps the manager. To have credibility the auditor must make sure to make statements that are strictly true. He or she must have the facts to back up his or her recommendations.³⁴ He gives six reasons why what someone says may not be true. The auditor must check it for himself or quote the person who made the statement. Sawyer believes in an old Japanese proverb that says "Do not believe what the first person tells you."³⁵

The auditor should use the best evidence he or she can get. Examples of evidence of the cost of a baseball are discussed and Randy knows the best evidence would be the purchase receipt. Other choices included checking with the store, asking the purchaser, checking advertised prices, getting the price from a witness or using past history. The hard physical type of evidence is the best. He does go into the rules of legal evidence slightly. He specifies that this may apply in the case of fraud and recommends getting legal advice in that circumstance.³⁶

³³ Sawyer, Modern Internal Auditing: What's It All About? The Grandfather Dialogues, p. 23.

³⁴ Ibid., p. 16.

³⁵ Ibid., p. 18.

³⁶ Ibid., p. 20.

When an internal auditor finds something wrong, he or she writes up a deficiency finding and it is really just a sales pitch. “Nothing ever happens until somebody sells something.”³⁷ The auditor must make management see that they would be better off to change. It must be reasonable and make sense. There are six parts to this sales pitch. There is the punch line, a short dramatic attention-getting statement of the problem. Then the criteria, the facts, cause, effect and recommendation are all included. In this manner he or she can get the ear and the respect of management.³⁸

An internal audit report tells managers what the auditor thinks they need to know to do their job, what will be the most help to them and the information needed to keep them informed. It tells about what the auditor found during the audit. It can be written or oral. It may be given at the beginning, middle, or end of an audit. Some internal auditors only tell about the deficiencies.³⁹ Sawyer wrote that the manager wants to know about what is going well also. The written report lists what was audited and the purpose of the audit.⁴⁰ It should give some background material, the findings, and the opinion.⁴¹ The opinion is the internal auditor’s judgment. It is an unbiased and informed evaluation based upon study, training, experience, and consideration of the facts. Of course if there is a material problem, the auditor should not wait to write it in a report, but should discuss it with the manager right away.⁴²

Sawyer did not believe in just reporting a problem and forgetting about it. The auditor’s job is to assist management in discharging their responsibilities. And the

³⁷ Ibid., p. 6.

³⁸ Ibid., p. 8.

³⁹ Ibid., p. 114.

⁴⁰ Ibid., p. 115.

⁴¹ Ibid., p. 116.

⁴² Ibid., p. 118.

auditor should report to a level with sufficient authority to adequately consider acting on recommendations. He did acknowledge that it is management's decision whether to act on a recommendation. They can decide to take the risk involved if they do not act upon a recommendation. The internal auditor should have no responsibility or authority over the activities reviewed. In any case all findings should be answered in writing.⁴³

The internal auditor must be satisfied that the action taken as a result of a finding corrects the problem. Lower level employees might not take the situation seriously and might rather avoid any extra effort. If something goes wrong later, top management could question why the internal auditor did not see that the problem was corrected. Therefore the auditor must see that corrective action has been taken and the problem resolved and be absolutely sure of it.⁴⁴

Sometimes this involves relying on the help of experts like fraud investigators. Fraud is explained as a form of stealing.⁴⁵ Using a baseball example the grandfather explains the four elements of fraud. These start with a misrepresentation, which the person knows to be false. The perpetrator must intend to benefit from it and there must be a loss suffered as a result.⁴⁶ He goes on to give examples for employee fraud, collusion, and embezzlement. Part of the internal auditor's job is to be alert for signs of fraud.⁴⁷ If suspected, the auditor collects information to use as evidence but should turn over the investigation to experts. Someone not trained in fraud investigation could

⁴³ Lawrence B. Sawyer, "What's The Internal Auditor's Responsibility for Corrective Action, Grandfather?," The Internal Auditor (March/April 1974), p. 64.

⁴⁴ Ibid., p. 65.

⁴⁵ Sawyer, Modern Internal Auditing: What's It All About? The Grandfather Dialogues, p. 11.

⁴⁶ Ibid., p. 12.

⁴⁷ Ibid., p. 13.

violate the rights of the suspect and get charged with defamation of character or false imprisonment.⁴⁸

Sawyer believed it was the manager's responsibility to control fraud and the internal auditor was responsible for assisting management by advising on the need for controls. The internal auditor was required by the statement of responsibilities to ascertain the extent to which company assets are accounted for and safeguarded from losses of all kinds.⁴⁹ However, the internal auditor does not insure against the existence of fraud. There is no economical system of controls that can prevent its occurrence.⁵⁰

The internal auditor begins by identifying the risk areas in the business, the areas that are susceptible to fraud. Then the auditor makes plans to audit these areas. All key controls must be covered and all risk areas must be monitored. If the controls are inadequate or not functioning, the internal auditor must recommend improvements. This part of the job should come first in order to exercise due professional care. Auditing operations and using new techniques are needed but the testing of controls over known risk areas is like basic housekeeping and should get priority.⁵¹

Some suggestions given include reviewing the known risk areas with security personnel, company counsel, and external auditors; providing personnel with lists of common forms of fraud and their symptoms; discussing with management common ways of deterring fraud; screening of all new employees by and checking references;

⁴⁸ Ibid., p. 14.

⁴⁹ Sawyer, "What's The Internal Auditor's Responsibility For Preventing And Detecting Fraud, Grandfather?," p. 70.

⁵⁰ Ibid., p. 71.

⁵¹ Ibid., p. 74.

prosecuting those who commit fraud; and having employees sign a conflict of interest statement annually.⁵²

The internal auditor must investigate any suspicious and material item, and use reasonable care and diligence in performance of examinations. Sawyer quotes from the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the Comptroller General of the United States, commonly referred to as the yellow book. Although the standards apply to governmental audits, he believes the message is appropriate for internal auditors as well. There is not an unlimited responsibility for detection of fraud. The auditor must however be alert for transactions or situations that could indicate fraud and then follow up in those cases. The IIA code of ethics requires reporting of any material facts that could be detrimental to the operations under review and any concerning unlawful practices.⁵³

In the eleven articles categorized as explaining the internal auditing profession to the public, anyone can understand what an internal auditor does, what he or she is like, and what is necessary to become one. They are easy to understand and entertaining as well.

Tools or Skills the Practitioner Should Be Using

These eleven articles are directed toward the practitioner even though the material continues to be in the form of a conversation between Sawyer and his grandson. The purpose is to explain some tools and methods that the internal auditor should be using. This is accomplished by having the grandson ask questions about topics that he has heard

⁵² Ibid., p. 77.

⁵³ Ibid., p. 79.

his Dad talk about or topics that had been discussed earlier in the conversations with his grandfather. These topics include electronic data processing (EDP), statistical sampling, operations research, Monte Carlo simulations, problem solving and the future of internal auditing.

Internal auditors are admonished to continue to keep up with the changes in EDP and learn to audit through the computer.⁵⁴ There was already the idea that there would not be paper audit trails in the future. He tells auditors to protect management from a lack of controls and from computer installations that are not needed and from systems that are too expensive.⁵⁵

EDP was explained to Randy as information being collected, processed and communicated automatically with machines through the use of electrical pulses. Randy had seen the big machines on television. These machines had lights flashing, wheels turning, and spaghetti (tape) rolling onto reels.⁵⁶

In the article the grandfather explains that EDP is as simple as yes or no.⁵⁷ He begins with an illustration of how data is represented by symbols using light bulbs that have numbers assigned to them. If a bulb is lighted, the number is included. The same idea is explained for magnetic tape, punched cards, and paper tape.⁵⁸

The system is explained to Randy as input, process and output. The process stage is further described by telling Randy the different things the computer can do with the data.⁵⁹ The central processing unit (CPU) and its two parts, the control and the

⁵⁴ Sawyer, Modern Internal Auditing: What's It All About? The Grandfather Dialogues, p. 133.

⁵⁵ *Ibid.*, p. 134.

⁵⁶ *Ibid.*, p. 46.

⁵⁷ *Ibid.*, p. 46.

⁵⁸ *Ibid.*, p. 49.

⁵⁹ *Ibid.*, p. 50.

arithmetic-logic, are explained as well as the role the operator plays. The different things the computer can do like add or count are accomplished through registers, which are controlled by the CPU.⁶⁰ The data is stored using positive or negative magnetic charging of cores (like beads) on a wire grid using electrical pulses. Once charged, the cores remain that way until changed. In that manner the symbols can be stored.⁶¹

EDP is explained in the simplest of terms. Sawyer wrote, "All I wanted to do was to throw a searchlight into some of the mysterious corners and show you there were no hobgoblins there."⁶² Although the article is not technical it is a good overview of how a computer works. It acts as an introduction to the next chapter, a more technical piece on designing an EDP system and the role of the internal auditor in that process.

Sawyer begins by explaining that the language used to instruct the computer is called programming and that the computer could do nothing without these instructions. The process of design starts with management and a particular need for information.⁶³ The computer equipment may have limits and it must be checked to see if the desired operation is possible. Next the current procedures are studied. The new process is drawn out on a system flowchart using a common set of symbols. There is another more detailed program chart prepared as well. The system flowchart and the program chart are like a state road map and a city map in the function served.⁶⁴

Common controls for batch processing with punch cards are discussed as well as computer edits and exception reports. The internal auditor can play a part in the design

⁶⁰ Ibid., p. 54

⁶¹ Ibid., p. 52.

⁶² Ibid., p. 55.

⁶³ Ibid., p. 57.

⁶⁴ Ibid., p. 58.

process like a real auditor and not just a “green-eye-shaded figure checker.”⁶⁵ As a member of the team, the auditor can see that controls are in place to meet the objectives. This pertains to project management in overseeing the schedule, cost, and quality of the project as well as controls built into the system itself.⁶⁶

Management may need to be sold on the idea of the internal auditor being on the design team. The auditor must give constructive suggestions, not just criticize. Also internal auditors must learn about EDP processing to talk the language and understand what the EDP people are saying.⁶⁷

Auditors in the future will use mathematical evaluations, quantitative analysis, risk analysis, regression, and probability theory.⁶⁸ Other methods Sawyer expected to be used more extensively include statistical sampling, linear programming, queuing theory, sensitivity analysis, game theory, and exponential smoothing.⁶⁹ Separate chapters are included for several of these topics including operations research and Monte Carlo simulation.

Some problems may be answered by guess or intuition with knowledge gained from experience. However, many times an answer can be obtained using mathematics. This is preferred because the answer can be proved. This practice of using mathematics in problem solving was called operations research (OR).⁷⁰ Determining the proper level of inventory and when to reorder are examples of problems solved in this manner.

⁶⁵ Ibid., p. 66.

⁶⁶ Ibid., p. 64.

⁶⁷ Ibid., p. 66.

⁶⁸ Ibid., p. 134.

⁶⁹ Ibid., p. 135.

⁷⁰ Ibid., p. 80.

Sawyer said it would not take the place of management because judgment is also required, but judgment can be based on some solid math.⁷¹

The grandfather wisely uses an example of a mathematical model to predict where a baseball will be when Randy swings the bat. This model included seven variables such as movement of the pitcher, distance from the mound, speed thrown, and wind conditions.⁷² The human mind can only process about three variables at a time. OR can handle many variables and it can provide alternative solutions. But judgment must be used in identifying the problem first. For example, should the problem be to lower the cost of the product or to determine if the product should even be made at all.

A linear programming type problem is given to Randy with production of go-carts at four different locations for different markets that need differing amounts of merchandise and the transportation cost varies. The solution for the lowest cost is shown with the use of a matrix. However it is much simpler to use a computer.⁷³ Examples of OR include linear programming, queuing theory, inventory theory, and Monte Carlo simulation.⁷⁴

Another way auditors can use mathematics is with statistical sampling. Sawyer told Randy that it is not always necessary but he encouraged its use. Statistical sampling allows the results to be measured objectively and adds reliability to the results.⁷⁵ That level of objectivity and reliability may not be needed in all situations such as when there is a good system of internal control and the auditor is only testing it to be sure it is

⁷¹ Ibid., p. 81.

⁷² Ibid., p. 82.

⁷³ Ibid., p. 85.

⁷⁴ Ibid., p. 83.

⁷⁵ Ibid., p. 38.

working. A highly experienced may have a good enough idea about the item under audit to make a good judgment without being as precise.⁷⁶

The grandfather explained the steps for selecting the sample. The sample size needs to be bigger if not statistically determined and needs to include at least 30 items. There needs to be a good system of internal control. If not, statistical sampling should be used.⁷⁷ Systematic or interval sampling and stratification are discussed. The auditor must use judgment and common sense. If problems are found, more testing will need to be done.⁷⁸

Precision and confidence level, expected error rate, and sample sizes not found on the tables are statistical subjects Randy was having problems understanding. Sawyer begins by explaining why samples are necessary. Then the concept of sampling error is given.⁷⁹ When problem areas arise in the discussion, like understanding precision and confidence, the grandfather always uses an example to clarify.

Precision and confidence are explained to the grandson using a baseball example. Randy said he could throw a baseball over the plate 95 out of 100 times. The precision would be the area on either side of the center of the plate that is included in the strike zone, which is 8 and 1/2 inches on either side. The confidence level is 95%.⁸⁰ If the strike zone were widened, the number of strikes thrown would increase. If the strike zone were narrowed to say three inches on either side of the center line, the number of good throws would go down to 75 out of 100. So as the precision range is increased, the confidence level goes up, but narrowing the range that is acceptable, decreases the

⁷⁶ Ibid., p. 39.

⁷⁷ Ibid., p. 40.

⁷⁸ Ibid., p. 41.

⁷⁹ Ibid., p. 29.

⁸⁰ Ibid., p. 30.

confidence level or the number of times the result would fall within the acceptable range.⁸¹

Using a table to find sample size is convenient but it requires the auditor to estimate the error rate in advance. The grandfather wisely uses a baseball example again to explain how the error rate affects the sample size. Different ways of estimating the error rate are explained by asking Randy to estimate how many baseballs with broken stitches are in a sack containing 1,000 baseballs. It is explained to Randy that it is just an intelligent guess at this point. After testing the sample the auditor will have a better idea about the actual error rate in the population.⁸²

Internal auditing is not all about using computers, mathematical modeling, and statistics. These are only tools. There is another tool that is critical and that is the auditor's intellect and problem-solving ability, which is a skill that can be improved. The reputation of internal auditing depends upon the auditor's objectivity, or not letting personal interest cloud decisions.⁸³ Auditors need to be able to think like modern, scientific managers. They need to understand management theory. A management book is cited as the basis for the chapter on problem solving which involves a rational, logical approach. Decisions are never made too quickly, without an analysis, and the manager does not let bias cloud his judgment. Facts are studied objectively. No problem can be solved without knowing the root cause.⁸⁴

Sawyer tells his grandson that the first step is to accurately define the problem. This is normally a variance from a standard of performance. A problem can usually be

⁸¹ Ibid., p. 31.

⁸² Ibid., p. 32.

⁸³ Ibid., p. 135.

⁸⁴ Ibid., p. 67.

traced to some change. The problem must be studied to adequately define it accurately and as narrowly as possible.⁸⁵ List all known reasons, investigate, then select the most likely cause. Problem solving in this manner is a methodical, orderly process.⁸⁶

This process is applied to a situation that Randy could understand. Sawyer has Randy imagine that on the way to school his bicycle begins to ride bumpy. After a seven-step process, Randy defines the problem and the most likely cause. The process is then discussed in an internal auditing context. Next a ten-step process is described for devising a solution or recommendation. Plans for several alternatives should be prepared thinking of possible reactions. The alternatives should be compared to the objective(s). Future adverse consequences should be considered. After discussion with management and a solution agreed upon, the internal auditor should follow-up to insure that plans are carried out.⁸⁷

A specific internal auditing problem consisting of a lack of internal controls over physical assets is discussed. A matrix can be used with “what”, “when”, “where”, and “extent” down the page. There are two columns going across the page for text. The first column describes the problem. The second column describes related information that is not part of the problem. This helps to narrow the focus and more precisely define the problem.⁸⁸ The auditor should always conduct a complete investigation. Do not rely on what happened the last time a similar problem occurred, but reevaluate.⁸⁹

A Monte Carlo Simulation is explained as a tool to use in decision-making. It involves the use of math and probabilities to perform what-if analysis. The analysis is

⁸⁵ Ibid., p. 70.

⁸⁶ Ibid., p. 72.

⁸⁷ Ibid., p. 74.

⁸⁸ Ibid., p. 77.

⁸⁹ Ibid., p. 78.

made more accurate with the use of randomly generated numbers for probabilities.⁹⁰

Also the distribution of variance is skewed to the unfavorable side rather than equally on both sides of a point estimate. The example given to Randy to begin with is estimating the time to get to school. Randy thinks ten minutes. Realistically it could take from between nine to eleven and ½ minutes.⁹¹ The theory is then applied to a capital asset acquisition decision giving all the variables, possible outcomes and probabilities.⁹²

“What’s up ahead?” is the last chapter in the book and seems to be directed toward practitioners, encouraging them to try new things and use the latest methods. Sawyer encourages auditors to practice modern internal auditing and not to be tied to the books. He explains to Randy that for these auditors there are unlimited horizons because of the variety of work that can be done in operations.⁹³

Operations auditing includes expansion into special problems for management where they would have used outside consultants in the past.⁹⁴ This may require hiring specialists. These people would not have an accounting degree but would be from other fields like mathematics, law, engineering, statistics, or EDP.⁹⁵

Examples of the special work that could be done include problems with production cost, speed, or quality, low return and earnings inhibitors, information system and information needs, safety regulations, organizational structure and management performance, pollution concerns, employment and training practices, and make-or-buy decisions.⁹⁶

⁹⁰ Ibid., p. 87.

⁹¹ Ibid., p. 88.

⁹² Ibid., p. 89 – 96.

⁹³ Ibid., p. 133.

⁹⁴ Ibid., p. 136.

⁹⁵ Ibid., p. 137.

⁹⁶ Ibid., p. 138.

Sawyer writes that there is one skill that is crucial for this type of auditing. That is the ability to work effectively with people. One of the chapters deals with the topic of people disliking the auditor. Sawyer explains to his grandson that if people are afraid of the internal auditor, they will not like him or her. This is what happens when the auditor ignores behavioral skills or does not take the time to build relationships. He or she can be abrasive or rub people the wrong way. If the internal auditor is critical, it could get someone in trouble. Sawyer uses another baseball example here for Randy. What if the umpire made a written report to the team manager on each player's mistakes? Randy realized right away that the players would hate the umpire.⁹⁷

Some auditors like to feel important or maybe they just do not know how to deal with people. To be effective in the long run, the auditors must not only get cooperation from those they audit, but sell them on the idea of problem-solving teamwork. The best way is by placing themselves in the other person's position. They should avoid making others defensive. Auditors should never humiliate people or make them look stupid in front of others. Good internal auditors do not make a big deal out of the little things.⁹⁸ Good internal auditors do not have to try to make themselves look smart by talking down to people.⁹⁹

Things internal auditors can do to improve relations are discussed. First they should make a phone call to find a convenient time. They should be friendly and respectful, like guests in someone's home. Internal auditors should try to calm fears and put people at ease.¹⁰⁰ Listening is a critical skill that cannot be faked. Auditors should be

⁹⁷ Ibid., p. 100.

⁹⁸ Ibid., p. 101.

⁹⁹ Ibid., p. 102.

¹⁰⁰ Ibid., p. 102.

interested, sympathetic and understanding.¹⁰¹ They should be supportive and treat the other person as an equal.¹⁰²

When there is a problem, the internal auditor should head up a problem-solving team and focus on the system (controls) rather than the people.¹⁰³ Be well prepared before presenting a problem to management. Have a recommendation ready. "Leave every place a little better than you found it."¹⁰⁴ Give management a chance to correct the problem. Then include in the report that management has corrected it already so it makes them look good. If only minor errors are found and they are not worth reporting, do not report. Report the positive results along with any deficiencies.¹⁰⁵

In closing the book, Sawyer encourages internal auditors to develop behavioral skills. These skills are assets and are absolutely necessary for the auditor to do operational and special problems type work.¹⁰⁶

Effect upon the profession

A timeline of internal auditing professional events is presented in Appendix I. The material from the grandfather dialogues is compared to the timeline to see if there was an effect upon the profession. Also the material is compared for originality and continued relevance. Comments from internal auditors who have read the dialogues are considered. This section will conclude with an overall evaluation.

¹⁰¹ Ibid., p. 105.

¹⁰² Ibid., p. 106.

¹⁰³ Ibid., p. 103.

¹⁰⁴ Ibid., p. 104.

¹⁰⁵ Ibid., p. 104.

¹⁰⁶ Ibid., p. 139.

One of the first things on the internal auditing profession timeline is the publication of the first book of any substance on the topic by Victor Brink in 1941, entitled simply *Internal Auditing*. In 1947, the *Statement of Responsibilities of Internal Auditors* was issued and later revised in 1971. An honored IIA member and Director of Research and Education, Bradford Cadmus, wrote a book that was published by the institute in 1964 entitled *Operational Auditing Handbook*. The IIA Code of Ethics was adopted in 1968. A Common Body of Knowledge was developed and approved in 1972. These are the significant events of the timeline that lead up to the publication of the grandfather dialogues.

After the dialogues were published, the standards for the practice of internal auditing were approved in 1978. Items beyond 1978 on the timeline do not seem to relate to the grandfather dialogues. In addition, the likelihood of Sawyer's writings in the early 1970's having a direct impact on items years later, diminishes with the passage of time.

Brink's book *Internal Auditing* was the result of a survey of practice as it was at the time. The most progressive internal auditing organizations at that time participated in the study. It was not a random sampling. Many of Sawyer's topics are covered including writing of reports, oral reporting, importance of social skills, treatment of findings, qualifications and characteristics, and duties and responsibilities including prevention of fraud.

Sawyer's writings are consistent with Brink's with two known exceptions. First, at the time of Brink's writing, it was accepted practice for the auditor to get recommendations approved by the head accountant before writing the report. The auditor

could go to the comptroller if there was a dispute with the head accountant.¹⁰⁷ In Sawyer's writing, the auditor reports to management directly. Second, although audit programs are mentioned by Brink, the term was used to refer to a plan for the areas to be audited during a year. Detailed procedures were generally written down in manuals if at all.¹⁰⁸

Also existing at the time of Sawyer's publications was the Statement of Responsibilities of Internal Auditors first published in 1947. It was later revised in 1957, and in 1971. The Statement of Responsibilities really defined what the profession of internal auditing should encompass. Sawyer's writings are consistent with the statement in every respect.

In 1947, the statement said that internal auditing deals primarily with accounting and financial matters but may also properly deal with matters of an operating nature. The 1957 revision made review of operations more prominent with the wording of accounting, financial and other operations. Accounting and finance are operations of an organization and in 1971 these words were removed to avoid placing undue emphasis on them. The Institute leadership believed that all operations were equally important and so the statement was changed to read simply the review of operations.¹⁰⁹

The new revision reflected Sawyer's views on auditors thinking like managers. Managers are interested in operations of the company, not just with accounting information. The new statement said that internal controls should have a reasonable cost compared to their benefit, a management concern. Wording that previously referred to

¹⁰⁷ Victor Z. Brink, Internal Auditing: Its Nature and Function and Methods of Procedure (New York, New York: The Ronald Press Company, 1941), p. 357.

¹⁰⁸ *Ibid.*, p. 53.

¹⁰⁹ Lawrence B. Sawyer, "Observations on the 1971 Revision of the Statement of Responsibilities of the Internal Auditor," The Internal Auditor (September/October 1971), p. 9.

accounting and other data was changed to management data. The statement charged auditors with the responsibility for recommending operating improvements, something in which managers are interested. Also it specifies that internal auditors should inform and advise management. The statement was said to have underscored the role of internal auditing in serving management.¹¹⁰

Sawyer was chairman of the committee that was responsible for the revision in 1971.¹¹¹ He undoubtedly had some influence. The statement was a reflection of what was being practiced by the more advanced members of the profession at the time.¹¹² However, if most of the profession had understood the changes, there would have been no need for the article published in the Internal Auditor explaining them to the members.

Serving management was not new in 1971. Operational Auditing Handbook was published in 1964. Operational auditing, called modern internal auditing, has as its goal improvement in operations.¹¹³ It begins with a clear understanding of the objectives, involves review of controls over operations and ends with constructive appraisal.¹¹⁴ The internal auditor is told to do the job like management would if management had time, considering what would be important to the manager and to think like a manager.¹¹⁵ The auditor works with management to improve effectiveness and efficiency of operations.¹¹⁶

The book written by Bradford Cadmus consists mainly of an application of the operational auditing theory to specific audits of seven different functions within an

¹¹⁰ Ibid., p. 10.

¹¹¹ Ibid., p. 8.

¹¹² Ibid., p. 11.

¹¹³ Bradford Cadmus, Operational Auditing Handbook (New York: Institute of Internal Auditors, 1964), p. 5.

¹¹⁴ Ibid., p. 15.

¹¹⁵ Ibid., p. 9.

¹¹⁶ Ibid., p. 18.

organization such as purchasing, receiving, and facilities. Each of these had been the result of a research study conducted by the Institute.

Operational auditing requires a broad viewpoint that comes from an education in humanities, management, and communications. The auditor must be curious, persistent and have a good business sense. Objectivity is a necessity. The auditor's opinions must be unbiased, based on facts.¹¹⁷ This requires an analytical, problem-solving approach.¹¹⁸

The auditor must work with management as a partner and getting their full cooperation is essential.¹¹⁹ This is accomplished by being more concerned with improvement than in getting credit for an audit finding.¹²⁰ Management's standpoint must be considered. To a manager the effect of activities on the organizational goals is more important than accuracy of recorded information.¹²¹ Minor findings are omitted from the report if they do not warrant executive attention. Instead, minor findings are corrected by a supervisor, and that is the end of the matter. No criticism is made without a constructive recommendation. A draft copy of the report is discussed with management before the final reporting is made.¹²²

Being part of the management team, the internal auditor must keep up to date on the latest management techniques such as operations research. The auditor should be able to work with consultants and management on teams for design and installation of

¹¹⁷ Ibid., p. 24.

¹¹⁸ Ibid., p. 460.

¹¹⁹ Ibid., p. 20.

¹²⁰ Ibid., p. 21.

¹²¹ Ibid., p. 24.

¹²² Ibid., p. 32.

data processing equipment.¹²³ Auditors must continue their education, improving knowledge and skills to stimulate imagination needed to make recommendations.¹²⁴

This book was written ten years before Sawyer's book on modern internal auditing. Many of the same ideas were included in Sawyer's book. Sawyer also wrote about the necessary characteristics of the internal auditor and knowledge that is needed in areas other than accounting or auditing such as management theory, the humanities and communication skills. He wrote about the importance of continuing to keep current on developments. Reporting only the really important findings along with a recommendation, and letting employees correct the insignificant errors were included in Sawyer's writings. The pre-closing conference to discuss the audit report draft with management before the final report is written avoids surprises. This is also one of Sawyer's topics. Sawyer's central philosophy was thinking like a manager, service to management, and being a partner with management. All of these ideas had been previously included in the book written by Cadmus.

The management viewpoint was evident in the Code of Ethics adopted in 1968. It specified that management relied upon internal auditors to help fulfill their duties. The qualities that are specified in the code are some of the same qualities that Sawyer said were necessary for an internal auditor.

The Common Body of Knowledge, 1972, specified knowledge that was commonly thought to be required of the internal auditor and was used as a basis for preparation of the Certified Internal Auditor (CIA) Examination. It included behavioral science, communication, computers and systems, business management, and quantitative

¹²³ Ibid., p. 463.

¹²⁴ Ibid., p. 466.

methods. These are all topics Sawyer had said were important for the education of an internal auditor.¹²⁵

After the grandfather dialogues were published, the most significant occurrence in the profession was the promulgation of standards for the profession in 1978. In the introduction, it is clear that there is an increasing emphasis upon internal audit serving the board of directors in addition to management. There is a change in wording of the definition of internal auditing from service to management to service to the organization. It specified that the members of the organization assisted included the board of directors as well as management. The internal auditor had a responsibility to both.¹²⁶

The board is mentioned in other places in the standards. Each organization should have a charter to specify the purpose, authority, and responsibility of internal audit, approved by management and accepted by the board of directors. The board of directors was to approve the appointment of the internal audit director. The internal audit director was to report to management and to the board periodically. The internal audit budget and plans were to be approved by management and disclosed to the board.¹²⁷

The considerations section of the introduction lists developments that had an impact on the development of the standards. The emphasis on the board is explained as follows, "Boards of directors are being held increasingly accountable for the adequacy and effectiveness of their organizations' systems of internal control and quality of performance."¹²⁸ Another reason for board involvement is for higher organizational status. Increased status would increase management support, increase employee

¹²⁵ Lawrence B. Sawyer, The Practice of Modern Internal Auditing (Altamonte Springs, Florida: Institute of Internal Auditors, Inc., 1981), p. 29.

¹²⁶ Ibid., p. 811.

¹²⁷ Ibid., p. 814.

¹²⁸ Ibid., p. 812.

cooperation, broaden audit coverage, and insure adequate consideration of recommendations.¹²⁹

The words management and board of directors were used throughout the standards almost an equal number of times. Management was referred to a few more times than the board due to it being management's responsibility to establish internal control systems and procedures, set objectives and goals, and set performance measures. Also, only management is involved in the preliminary discussion of findings before the final report is issued. Sawyer did not write about any involvement with the board of directors. He did write extensively about partnering with management and internal auditing being a team effort between the auditor and management.

Objectivity is discussed in the standards as a mental attitude. Internal auditors should not subordinate their judgment to others, they should have an honest belief in their work.¹³⁰ Sawyer wrote about this essential quality as well. He said that management wants a professional evaluation of the facts.¹³¹ Sawyer illustrates objectivity to his grandson very well with an example of two people advising him about his watch that he has taken apart. "One of them is a watchmaker who repairs watches, but does not sell them. The other is a man who sells watches, but does not repair them."¹³² The grandson concludes that neither would be objective because they each had a personal interest in the matter.

An application of the objectivity concept is made in the standards as it pertains to design, installation, or operations of control systems and procedures. It is very clear that

¹²⁹ Ibid., p. 813.

¹³⁰ Ibid., p. 814.

¹³¹ Sawyer, Modern Internal Auditing: What's It All About? The Grandfather Dialogues, p. 193

¹³² Ibid., p. 136.

this impairs the auditor's objectivity. The standards specify that the auditor may review procedures before implemented and recommend standards of control for systems.

Recommendation or review does not impair objectivity.¹³³

Sawyer had written that a systems analyst should design an EDP system. The auditor can check to be sure controls are in place to insure that objectives are met.¹³⁴

This should be done before the system is operational while changes are easier to make.

Sawyer recommends learning the EDP language and being part of the project team and making constructive suggestions.¹³⁵

The standards require the internal auditor to use due professional care in their work. This is the level of care exercised by a reasonably prudent and competent internal auditor in similar circumstances. Reasonable care and competence is required, but not infallibility or extraordinary performance.¹³⁶ Therefore, the auditor cannot give absolute assurance that there are no errors or instances of noncompliance. It means among other things doing the work needed to achieve audit objectives such as evaluating internal controls.¹³⁷ Sawyer wrote almost the same words before the standards were written. He said internal auditors owed a duty of due professional care.¹³⁸ This involves professional reviews over a reasonable period of time. The auditor has to do a good job of auditing, of monitoring controls, knowing what is going on in the company, identifying risks, and covering the risks in the audit program.¹³⁹ He or she is not an insurer against fraud or

¹³³ Sawyer, The Practice of Modern Internal Auditing, p. 815.

¹³⁴ Sawyer, Modern Internal Auditing: What's It All About? The Grandfather Dialogues, p. 55.

¹³⁵ *Ibid.*, p. 56.

¹³⁶ Sawyer, The Practice of Modern Internal Auditing, p. 818.

¹³⁷ *Ibid.*, p. 819.

¹³⁸ Sawyer, "What's The Internal Auditor's Responsibility For Preventing And Detecting Fraud, Grandfather?," p. 74.

¹³⁹ *Ibid.*, p. 73.

error.¹⁴⁰ He says due professional care is doing what a reasonable auditor of ordinary, not extraordinary, prudence would do.¹⁴¹ Sawyer cites the Standards for Audits of Governmental Organizations, Programs, Activities, and Functions for his ideas on due professional care.¹⁴²

The standards specified certain knowledge that was considered necessary for the internal auditor including auditing, accounting, management principles, and other general business subjects including information systems. Communication and people skills are necessary. Internal auditors must continue their education to stay competent.¹⁴³ Sawyer had also included a description of knowledge and skills necessary for an internal auditor that was almost word for word what was stated in the standards. He had written about the necessity for auditors to stay current with their knowledge and skills and admonished them to learn about computer systems.

The standards specify the duties of the internal auditor to include accuracy of records, compliance with requirements and safeguarding of assets. These had been accepted responsibilities. The standards also included economy and efficiency in use of resources and management's accomplishment of objectives.¹⁴⁴ This had been called operational auditing. Sawyer encouraged its use and called it modern internal auditing. It was his vision for the future of the profession. Even so far as to do special projects for management, that would have required the use of outside consultants. He said this means there should be specialists on the internal auditing team from disciplines other than accounting and auditing. The standards specify that people skilled in other areas be

¹⁴⁰ Ibid., p. 75.

¹⁴¹ Ibid., p. 79.

¹⁴² Ibid., p. 77.

¹⁴³ Sawyer, The Practice of Modern Internal Auditing, p. 818.

¹⁴⁴ Ibid., p. 821.

employed or contracted from outside as needed to fulfill the competency standard.¹⁴⁵

Sawyer had written that there were times to use experts such as fraud investigators.

The performance standards specify that in planning for each audit a written audit program should be prepared.¹⁴⁶ This is done after obtaining background information and completing an on-site survey. The procedures and sampling plans should be selected in advance but may be changed later if necessary.¹⁴⁷ This is similar to Sawyer's writings about audit programs. He wrote that the audit program was very detailed like an itinerary for a trip but it should be flexible to allow for changes. It should be prepared after preliminary information is gathered.

The standards specify that information should be collected to support audit results. It should be sufficient, competent, relevant and useful.¹⁴⁸ Each of these terms is defined in the standards. Sawyer is not as specific but uses examples to illustrate some of the same principles. The only inconsistency noted is that Sawyer specifies the evidence should be useful to the auditor in forming his opinion. The standards say it should be useful to the organization in meeting its goals.¹⁴⁹

On the topic of reporting, the standards state the final report should be written but an interim report may be presented in written or oral form. The auditor should discuss the audit results with management before issuing the final report. Reports should be objective, clear, concise, constructive, and timely. They should include the purpose, scope and results. They may include recommendations for improvement,

¹⁴⁵ Ibid., p. 816.

¹⁴⁶ Ibid., p. 822.

¹⁴⁷ Ibid., p. 823.

¹⁴⁸ Ibid., p. 822.

¹⁴⁹ Ibid., p. 823.

acknowledgement of satisfactory performance, and corrective action taken.¹⁵⁰ The auditor should follow-up to see that corrective action was taken or that management is assuming the risk.¹⁵¹

Sawyer included the scope, purpose, background, results, recommendations, and an objective opinion in his description of an audit report as well. He specified that it could be written or oral and always include recommendations. He encouraged auditors to tell managers what was going well and not just what was not. If there was a significant problem it should be discussed with management right away. He specified that management could decline to take the auditor's advice and take on the additional risk. However, he believed strongly that auditors should follow-up on recommendations to see that action is taken.

The writings of Lawrence B. Sawyer in the Grandfather Dialogues is consistent with the Standards for the Professional Practice of Internal Auditing promulgated by the IIA in 1978. There are many similarities such as the need for an objective attitude, for use of due professional care, for certain knowledge and skills, and for continuing professional education. The consistencies include the duties and responsibilities of the internal auditor and areas pertaining to the work of the auditor such as use of the audit program, supporting evidence, reporting and follow-up on recommendations.

These standards were written about four to eight years after the grandfather dialogues. There is an emphasis on reporting to the board that is absent from Sawyer's early writings. He wrote about this change in the profession in a 1980 journal article and

¹⁵⁰ Ibid., p. 823.

¹⁵¹ Ibid., p. 824.

said it was a result of more responsibility being placed upon the board by the SEC.¹⁵² He cited recommendations by the SEC for greater accountability in 1972, a court case in 1977, and rising liability insurance for directors. Another author cited Watergate, Moss and Metcalf congressional hearings, the Cohen Commission report, and the Foreign Corrupt Practices Act of 1977 as results of management's failing to carry out its assigned responsibilities.¹⁵³ This failing by management necessitated an increase in board oversight. Also a need for greater independence and status in the organization for internal audit could be filled by board involvement with the internal audit function.¹⁵⁴

This seems to be a shift in the profession that occurred after the grandfather dialogues. Even ten years after the standards were written there was an article published explaining why internal auditors should adopt the service to organization view over service to management.¹⁵⁵ The view of working with management was present in both the standards and the dialogues. Service to management had also continued to be a theme in internal auditing literature in the 1980s.¹⁵⁶ The service to the organization was not an accepted viewpoint worldwide as the Canadian Comprehensive Auditing Foundation issued a monograph against the view in 1986.¹⁵⁷

The views expressed in the dialogues can be seen in the standards. The standards were written after the dialogues. Perhaps the dialogues had an impact upon the profession that is evidenced by the similarities seen in the standards. However, review of literature and professional publications prior to the dialogues also reveals many

¹⁵² Lawrence B. Sawyer, "Janus or The Internal Auditor's Dilemma," The Internal Auditor, (December 1980), p. 20.

¹⁵³ Michael J. Barrett, "Service To Whom?" Internal Auditor (June 1988), p. 28.

¹⁵⁴ Sawyer, "Janus or The Internal Auditor's Dilemma," p. 21.

¹⁵⁵ Barrett, , p. 27.

¹⁵⁶ Ibid., p. 29.

¹⁵⁷ Ibid., p. 29.

similarities. These similarities were found as far back as 1941 in the first book on internal auditing written by Victor Brink. Therefore it seems that Sawyer's Grandfather Dialogues did not represent new original ideas for the profession. The fact that the same ideas are represented in the standards indicates a continued relevance.

Sawyer did have a considerable influence upon the standards as he was part of the twelve-person committee that wrote them.¹⁵⁸ However, it was a team effort of members from various backgrounds and the committee considered input from leaders in the profession, government agencies, professional accounting organizations, and members of the IIA.¹⁵⁹

Paul Heeschen, a personal friend and work supervisor, thought the grandfather series was interesting and called it a very outstanding series of thoughts. He said they were elementary, but that was needed in the early days of internal auditing. Some criticized the writings saying the Sawyer could do much better than that. He had already written an award-winning article at that time and was known as a leader in the profession.¹⁶⁰

The director of internal auditing who Sawyer worked under for years, C. N. Inman also thought that the articles were too basic, preliminary, and non-academic. He did think the approach was rather clever, however, and said they were "Basic, yeah . . . but good reading."¹⁶¹

¹⁵⁸ Lawrence B. Sawyer, "A Mini-history of The Standards," *Internal Auditor*. (June 1988), p. 25.

¹⁵⁹ *Ibid.*, p. 26.

¹⁶⁰ Personal interview with Paul Heeschen, retired professor and author, Irvine, California, February 10, 2004.

¹⁶¹ Personal interview with C. N. Inman, past president of the Institute of Internal Auditors, Altamonte Spring, Florida, March 29, 2004.

Sawyer's daughters remembered that he always wanted to write so that everybody could understand the message. "That was his aim from the time he started writing. In writing there is no reason to use one big word, when you can use two little words and everybody understands you and that's the way he spoke."¹⁶²

The book was very useful to Anne Graham, co-author and past editor of the Internal Auditor. She did not have any experience or knowledge of internal auditing when she accepted the position as editor for the profession's journal. The dialogues were on the level that she needed at the time to serve as an introduction to the profession. "I didn't know anything about internal auditing . . . The book was actually very useful to me because it explained some things to me on the level that I was at that time so it was valuable."¹⁶³

Basil Pflumm, an internal auditor with many years of experience, believes the articles were good in that they were easy to read. "I do not know that I learned anything from them. It's like reading familiar scripture, you read it, maybe you get a new insight from it, a new way of looking at it, but you really do not see anything for the first time. And that's the way I felt about that series."¹⁶⁴ He did indicate that the articles could be useful to flow-through or temporary auditors. He estimates as much as seventy percent of internal auditors are in a management training program. "They come out of another element of the business and are slated to go back to something else. We really have a challenge to take people who do not plan to stay long, bringing them in making them

¹⁶² Personal interview with Barbara Witt and Linda Kuhns, daughters of Lawrence B. Sawyer, Sherman Oaks, California, February 9, 2004.

¹⁶³ Telephone interview with Anne Graham, former editor of the Internal Auditor and author, Chicago, Illinois, April 7, 2004.

¹⁶⁴ Personal interview with Basil Pflumm, Institute of Internal Auditor staff member, Altamonte Springs, Florida, March 29, 2004.

professional so they understand the essence of things, they are productive for a 3 – 5 year period before they go back out.”¹⁶⁵ These people must have intensive training that begins with the basics.

Various readers wrote into the editor of The Internal Auditor during the time the articles were published. Five readers had comments that were unfavorable and three readers were favorable. Those against publication disagreed with the writing style of the dialogues and not the content except for one woman who felt Sawyer’s example of internal auditing housekeeping chores was sexist. The readers that were in favor of publication liked the style and found it easy to read. These letters are included in Appendix H.

Sawyer’s replies to the readers are also included and are quite interesting. Anne Graham, former editor and co-author, said that Sawyer was very different from most internal auditors as most are not creative or innovative. “But Larry was both those things and I do not think he would have been that unhappy that not everyone liked them [the grandfather dialogues].”¹⁶⁶

The grandfather dialogues were innovative in style but not in content. Analysis of the internal auditing profession timeline shows that there were no new ideas put forth. The material was very consistent with the practice of internal auditing at the time as evidenced by professional publications such as the standards for the practice of internal auditing. There did not seem to be any major controversial issues presented as the letters from readers dealt with the style rather than content.

¹⁶⁵ Pflumm Interview.

¹⁶⁶ Graham Interview.

According to Sawyer there were two purposes in these dialogues, to explain internal auditing basics to the public and remind internal auditors about some tools and techniques they should be using. He did not set out to change the profession as much as to explain it in terms people could understand. The grandfather dialogues seem to have been an excellent means to accomplish his purposes.

CHAPTER V

THE PRACTICE OF INTERNAL AUDITING

The practice of internal auditing includes many articles and books written by Lawrence B. Sawyer that explain how internal auditing should be practiced. The writings are introduced, the method is described, and the material is summarized by topic. An assessment of the practice-oriented writings concludes this chapter.

The Practice of Modern Internal Auditing: Appraising Operations for Management (The Practice), Sawyer's most well known text, was published in 1973. It is based on his work experience in internal auditing of almost 40 years in government and industry. He consulted experts in the field and many practicing internal auditors from a variety of industries about how internal auditing was being practiced. In it he covers how to conduct the audit, from planning to reporting. See Table 5 for a listing of topics. The end-of-chapter questions, problems, and cases made Sawyer's book practical for college classroom use. Internal auditing was still being learned in the field for the most part. This book could be used as a reference source by these auditors.¹

The second edition of The Practice was published in 1981. The title was shortened to The Practice of Modern Internal Auditing. Sawyer gives credit to over 50 people who had input from business, professional organizations, government, and education². It was expanded from 531 to 882 pages and from 13 to 25 chapters.

¹ Lawrence B. Sawyer, The Practice of Modern Internal Auditing (Altamonte Springs, Florida: Institute of Internal Auditors, 1981), p. ix.

²Ibid., p. xiii.

Table 5

Sawyer's Internal Auditing
Chapters and Topics, by Edition

Topic	CHAPTER			
	1 st Ed.	2 nd Ed.	3 rd Ed.	4 th Ed.
Establishing the audit department	1	16	16	16
The Profession of Internal Auditing	1	2	2	1
History of Internal Audit	n	1	1	1
Control	5	3	3	2
Selecting and Developing Staff	2	17	17	17
Long-Range Audit Plan	3	18	18	18
Planning and Controlling an Audit	4	19	19	19
Quality Control	n	20	20	20
Risk Assessment	5	4	4	8
The Preliminary Survey	5	4	4	3
Audit Programs	6	5	5	4
Sampling	7	9	9	9
Quantification	2	10	10	10
Computer Auditing	8	11	11	11
Computer-Assisted Auditing	8	12	12	12
Field Work	9	6	6	5
Deficiency Findings	11	7	7	6
Working Papers	10	8	8	7
Audit Reports	11	13	13	13
Reviews and Replies	12	14	14	14
Audit Director Reporting to Management	13	15	15	15
Principles of Management	5	21	21	21
Fraud	4	22	22	22
Dealing with People	5	23	23	23
Coordination with the External Auditor	3	24	24	24
Relationship with the Board of Directors	1	25	25	25
Professional Standards of Practice	n	2	26	26

n - Topic not covered in that chapter

The title of the third edition was changed to Sawyer's Internal Auditing: The Practice of Modern Internal Auditing. It was published in 1988. Sawyer acknowledges Dr. Glenn Summers of Louisiana State University for revising, rewriting, and updating the four chapters on modern methods as well as administrative assistance with other chapters.

Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, fourth edition was written with a coauthor, Mortimer A. Dittenhofer and with the assistance of James H. Scheiner. It was published in 1996. Scheiner updated the technical chapters.³ Sawyer and Dittenhofer divided the other chapters. Each updated their allotted chapters, then reviewed and edited the work of the other.⁴

The fifth edition is dedicated to the memory of Lawrence B. Sawyer. He passed away before it was finished. He had worked on the planning, but other authors are responsible for the new material.⁵ The degree that Sawyer was responsible for the fifth edition is questionable due to his failing health; therefore, it is omitted from the analysis.

The Internal Auditing Handbook (The Handbook) is also practice oriented and has been called a how-to guide. The book was coauthored with Paul E. Heeschen. It contains copies of actual forms and documents that were being used in practice and a style manual for writing. A listing of topics and chapters is provided in Table 6 that follows.

Elements of Management-Oriented Auditing is a short paperback book that was published in 1983. It was written to be easy to read and understand and was intended to

³ Lawrence B. Sawyer and Mortimer A. Dittenhofer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing (Altamonte Springs, Florida: Institute of Internal Auditors, 1996), p. xix.

⁴ Telephone interview with Dr. Mortimer A. Dittenhofer, coauthor, professor, internal auditor, and friend, Washington, D.C., December 9, 2003.

⁵ Lawrence B. Sawyer, Mortimer A. Dittenhofer, and James H. Scheiner, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing (Altamonte Springs, Florida: Institute of Internal Auditors, 2003), p. viii.

Table 6

Internal Auditor's Handbook
Topics by Chapter

<u>Chapter</u>	<u>Title: Topics</u>
1	Start-up Activities: Charter, Reporting Relationships, Responsibility Statement, Areas of Coverage, Promotion
2	Staffing the Function: Size and Structure, Job Descriptions, Selection, Orientation, Training, Evaluation
3	Administration: Staff Manuals, Checklists, Internal Records, Library, Quality Control
4	Summary Reports to Management and the Board: Responsibilities of the Board and Audit Committee, Taking the initiative
Appendix A	Style Manual: Mechanics of Writing, Syntax
Appendix B	Audit Reports

introduce the discipline.⁶ It is an overview, in summary form, of many topics included in The Practice. See Table 7 that follows for a listing of the topics in each chapter.

The topics covered in Sawyer's books were topics of journal articles as well. For example, Sawyer's list of Ten Commandments is included in Elements of Management-Oriented Auditing and a journal article.⁷ Topics reappear as his favorite themes. A listing of journal articles categorized as practice oriented is included in Table 8 that follows.

To analyze these writings, the practice-oriented work is presented by topic and then placed in sequence. The summarized materials relate to planning, modern techniques, fieldwork, and reporting. Consistencies and inconsistencies are identified. The changes in philosophy are integrated with environmental forces that may have had an impact. Sawyer's ideas are compared to developments in the internal auditing profession to judge the impact that Sawyer's writings may have had.

A timeline was borrowed from the Institute of Internal Auditors with some details added from a history of the profession, The Institute of Internal Auditors, 60 Years of Progress through Sharing, by Dale Flesher. It includes important events occurring in the profession over the years that the Institute of Internal Auditors (IIA) has been in existence.⁸ Comparison to the timeline will help determine whether Sawyer was writing about events before, during, or after their occurrence in the profession. A conclusion will be reached as to the originality and continued relevance of the published materials and the effect upon the profession.

⁶ Lawrence B. Sawyer, Elements of Management-Oriented Auditing (Altamonte Springs, Florida: Institute of Internal Auditors, 1983), p. iii.

⁷ See Table 11, p. 205.

⁸ See Appendix K, Chronological Timeline of Significant Internal Auditing Events.

Table 7

Elements of Management-Oriented Auditing

<u>Chapter</u>	<u>Title: Topics</u>
1	The Nature of Modern Internal Auditing: Management-Oriented, 10 Commandments
2	Control: Open Sesame, Management Controls
3	Preliminary Survey: Familiarization, Participative, Gathering Information, the basics
4	Audit Programs: Profession Programs, Areas of Risk
5	Field Work: Approaches, Measurement, Examination
6	Working Papers: Importance, Development
7	Developing Deficiency Findings: Types, In Working Papers and Reports
8	Selling Audit Findings: Nothing Ever Happens, Sales Campaign
9	Reports: Function, Essentials
10	Dealing with People: The Image, Motivating and Interacting
11	Jumping to Conclusions: Evidence
12	Fraud: Forms, Detecting and Preventing

Table 8

List of Journal Articles
Title and Contents, on the Subject of
The Practice of Internal Auditing

“Auditing Anything Under the Sun,” (December 1981) – Taking an active role in planning by review and appraisal of basic assumptions and other examples of a broad audit scope.

“Consultant to Management: The Internal Auditor’s Emerging Role,” (June 1981) – The importance of keeping up with the latest technology and research methods to have the knowledge necessary to be a consultant is stressed.

“Developing Executive Compensation Programs: A Fresh Approach,” (June 1994) – Seven functions, three guiding principles and six steps to develop, maintain, and evaluate an executive compensation program.

“Improving the Bottom Line,” (August 1983) – How to audit the organizing function of management, application of management consulting and how to report as a consultant.

“Internal Auditing: Practice and Professionalism,” (June 1991) – How the practice has changed in the last 50 years with the use of computers, statistics, risk analysis and a broadening of the scope of work.

“Internal Control – the Internal Auditor’s ‘Open Sesame’,” (January/February 1970) – A case study on adequacy and effectiveness of internal operational controls in an engineering department and how to think like a manager.

“Just what is management auditing?” (March/April 1973)– The ten commandments of internal auditing are given, a list of practical rules such as know the objectives and internal controls, see Table 11.

“Management Fraud: The Insidious Specter,” (April 1979) – The forms and reasons why this fraud occurs, how to control it, tools to use in an investigation and a list of red flags is provided for readers.

“Purifying the Audit Report,” (January/February 1969) –The results of errors in the audit report. Sawyer gives a list of 23 common errors to avoid in report writing.

“Simple Sampling, How to Stop Worrying and Learn to Love Statistical Tables,” (July/August 1968) – Sampling plans and selection techniques, confidence level and precision are discussed.

“Sworn Depositions,” (October 1994) – Eleven rules for giving depositions and serving as an expert witness and consultant to attorneys.

“Talk to me, please!” (June 1997) – How to avoid wrongful discharge cases with honest and specific employee evaluations, and with proper documentation and confidentiality. The article includes a list of questions to ask a human resources audit.

“The Anatomy of Control” (June 1964) – The various definitions of internal control and what it means to internal auditors is included. Sawyer tells how to link testing to objectives through controls. He tells how to evaluate and test internal controls for two example activities, purchasing and accounts payable.

“The Creative Side of Internal Auditing,” (December 1992) – Examples are given on how to be creative in a preliminary survey, in selecting the audit procedures, and in writing the report.

“The Essence of Management-Oriented Internal Auditing,” (June 1984) – An example is given for each of the four functions of management: planning, implementation, control, and evaluation. How a violation or deficiency in these areas caused a problem.

“The Lawyer, the Statistician and the Internal Auditor,” (Summer 1967) – Sawyer tells why statistical evidence was not allowed in a case. How the internal auditor can be an expert witness and consultant to attorneys when data is collected and evaluated using statistical methods.

“Why internal auditing?” (December 1993) – How the auditor can help management in obtaining information using highly technical means such as computer, mathematical models, and systematic research methods.

Audit Planning

Audit planning consists of establishing a long-range schedule, conducting a preliminary survey, evaluating internal control, and writing an audit program. The internal auditor should be alert for indicators of fraud in planning and fieldwork.

The Long-Range Schedule

Sawyer explains the purpose of the long-range schedule and factors to consider when making the plan. These factors include the internal control system, external auditor coordination, risk analysis, and the unexpected.

Purpose

A long-range schedule is a plan that includes the areas, such as sales department, the planned report dates, the frequency of audits, such as once every three years, a priority rating, and budgeted time in man-days. It should cover a three-to-five-year period. This long-term plan can be useful for many purposes. As a guide, it assures adequate audit coverage. It justifies the budget request for employees, travel, etc.⁹ The budgeted time establishes a standard for audit managers to work toward to control time spent on an audit. Establishing the schedule demonstrates a well-controlled audit department. It serves to notify the external auditors of the extent and areas of internal audit testing. Cooperation in scheduling can result in decreased cost of the external audit.¹⁰ The second edition points out that the standards for the professional practice of

⁹ Lawrence B. Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management (New York: Institute of Internal Auditing, 1973), p. 79.

¹⁰ Ibid., p. 82.

internal auditing require planning and creation of audit work schedules that include what is to be audited, when, and the estimated time required.¹¹

Factors to Consider

Management should be given an opportunity for questions and input. Their participation should increase acceptance and cooperation.¹² The plan must provide extra time for these activities that are particularly susceptible to error, manipulation, or loss. It must also allow for the unexpected, educational development, and special management projects.¹³ A list of possible weak control areas is included in The Practice as an example of areas needing extra emphasis. A list tailored to the specific company should be reviewed with management.¹⁵ This is consistent with the professional standards that are quoted in the second edition in establishing the audit work schedule priorities according to risk and potential loss.¹⁶

The second edition includes a chapter on relations with the external auditors. Audit plans and work schedules should be reviewed to avoid conflicts and duplication of work and to insure adequate coverage.¹⁷

In the third edition, several pages have been added for risk analysis. Mathematical calculations can be made to determine priorities according to risk. These are complex, time-consuming, and based on estimates that require judgment.¹⁸ Sawyer recommends a simpler method. The internal auditor's experienced judgment can be used

¹¹ Sawyer, The Practice of Modern Internal Auditing, p. 608.

¹² Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 80.

¹³ *Ibid.*, p. 89.

¹⁵ *Ibid.*, p. 89-91.

¹⁶ Sawyer, The Practice of Modern Internal Auditing, p. 608.

¹⁷ *Ibid.*, p. 780.

¹⁸ Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing (Altamonte Springs, Florida: Institute of Internal Auditors, 1988), p. 862.

to rate the risk inherent in various activities. Consideration is given to the results of previous audits, internal controls present, some financial measure of materiality, vulnerability to loss, external audit coverage, major changes in the organization and requests of management.¹⁹

In the article “The Essence of Management Oriented Auditing,” Sawyer writes that risk assessment is how internal auditors can be of service to executive management. Risk should be identified and defused, if economically possible, by internal controls. Five examples are given. The auditor should list all risks and include these areas in the audit plans.²⁰

Preliminary Survey

Sawyer introduces the topic as follows:

Simply stated, the purpose of the preliminary survey is familiarization. But familiarization for the auditor is different from familiarization for the casual observer. The auditor must not only view the scene and read the words – he must hear the music too. He must do more than observe the flow of work. He must perceive the true objectives . . . he must pinpoint the key controls . . . he must understand the management style . . . he must test the quality of the employees. Only then will he be able to determine significant control points, develop a thoughtful audit program, deploy his audit efforts economically, and form a firm foundation for the examination that follows.²¹

Sawyer writes about the purpose of the survey, the initial meeting, information to obtain, the steps involved, the evaluation, and concluding the process. The evaluation of internal controls is part of the process and is covered here in the next section.

¹⁹ Ibid., p. 863.

²⁰ Lawrence B. Sawyer, “The Essence of Management-Oriented Internal Auditing,” The Internal Auditor (June 1984), p. 44.

²¹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 124.

Purpose

The survey is needed to familiarize the internal auditor with the activity being examined and the people involved. The time is well spent if it can help the auditor focus on areas most needed, resulting in a more economic audit and build rapport with operating personnel. It provides an overview of the operation as the auditor asks “what is the job, who does it, why, and how?”²² The auditor will use the information gathered to prepare the audit program. The survey should be planned and documented just as any part of the audit. It should take on average about 5 percent of the total budget for the audit.²³

Initial Meeting

The initial meeting between the internal auditor and the auditee is important as it sets the tone for the entire audit.²⁴ In the second edition Sawyer adds that it is a courtesy to schedule the meeting in advance. With the third edition, Sawyer adds that the auditor should come to the meeting well prepared by learning as much as possible in advance and having questions prepared.²⁵ Prior audit working papers, permanent files, and current research on the activity are good sources of information.²⁶ The Handbook includes a two-page project checklist that covers a list of items to review in preparing for the survey.²⁷

²² Ibid., p. 126.

²³ Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 185.

²⁴ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 134.

²⁵ Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 156.

²⁶ Ibid.

²⁷ Paul E. Heesch and Lawrence B. Sawyer, Internal Auditor's Handbook (Altamonte Springs, Florida: Institute of Internal Auditors, 1984), p. 134.

Information to Obtain

The Practice has several example questionnaires and lists of information to obtain.²⁸ In an article on creativity in internal auditing, Sawyer recommends using the basic principles of management as an outline to develop questions for the preliminary survey.²⁹ Some information is gained from personal observation of work being done.³⁰ The goal is to find out about objectives, controls, operating standards, and risks.³¹

Steps Involved

The Handbook includes a preliminary survey checklist that lists the steps in the process.³² Sawyer writes in The Practice that after becoming familiar with the system, the auditor traces a transaction from source document to final recording. This is called a walk-through. Its purpose is to see if the system is consistent with the auditor's understanding. Flowcharts are prepared to document the flow of information. In the third edition, Sawyer says that software is available to make flowcharting easier. The flowcharts can be stored electronically and updated easily as needed.³³

Evaluation

The preliminary survey is the time for risk assessment pertaining to the particular activity or unit. In the second edition, Sawyer expanded his discussion of risk evaluation. For every risk there should be a control established to guard against it.³⁴ The second edition has examples of risks and related controls, and a listing of potential problem

²⁸ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 126-152.

²⁹ Lawrence B. Sawyer, "The Creative Side of Internal Auditing," Internal Auditor, (December 1992), p. 60.

³⁰ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 138.

³¹ *Ibid.*, p. 153.

³² Heeschen and Sawyer, p. 136.

³³ Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 360.

³⁴ Sawyer, The Practice of Modern Internal Auditing, 97.

areas.³⁵ Also provided is a list of indicators of inadequate operating management, and a list of constraints on good management.³⁶

In the fourth edition, the authors specify that if there is good management, the extent of the audit can be reduced. There is a discussion of what the authors have determined to be evidence of good management. For example, they effectively delegate and control work through operating standards, employ means of control to insure plans are put into play, and follow up to get feedback on results.³⁷

Concluding the Survey

At the conclusion of the preliminary survey, the auditor should meet again with the manager to report on initial impressions, discuss his understanding of the objectives, and discuss plans for the audit.³⁸ In the second edition, Sawyer says most auditors would issue an interim audit report summarizing the results of the survey. If no additional audit effort is justified, a final audit report is issued. That report would include the scope of the audit work done so far and give the basis for the decision not to proceed.³⁹

Internal Control

Sawyer defines internal control and explains its relevance to internal auditors. It is the key to operational auditing. He tells readers how to test and evaluate it. Some problems are pointed out. His writings take into account developments occurring over the years.

³⁵ Ibid., p. 102 – 103 and 121 – 127.

³⁶ Ibid., 93 – 97.

³⁷ Sawyer and Dittenhofer, p. 176-178.

³⁸ Sawyer, The Practice of Modern Internal Auditing, p. 135.

³⁹ Ibid.

Definition and Relevance to Internal Auditing

In 1964, Sawyer wrote an article on internal control that won his first Thurston Award for writing excellence. Sawyer defines internal control as follows:

Control comprises all of the means devised in a company to direct, restrain, govern, and check upon its various activities for the purpose of seeing that company objectives are met. These means of control include, but are not limited to, form of organization, policies, systems, procedures instructions, standards, committees, charts of account, forecasts, budgets, schedules, reports, records, check lists, methods, devices, and internal auditing.⁴⁰

He says what is important for the auditor to understand is this: "For control to have meaning it must have as its purpose the attainment of an objective. And the internal auditor must know the objective before he can properly evaluate the means of control."⁴¹

In The Practice, Sawyer explains that evaluation of controls is necessary for adequate planning. Any weaknesses in controls are high-risk areas. Audit effort can be concentrated in these areas. Evaluation of controls is part of the preliminary survey for an operational audit.⁴²

In the second edition, the means of achieving control are discussed: organization, policies, procedures, personnel, accounting, budgeting, reporting, and internal review.⁴³ For each of the four management functions (planning, organizing, directing, and controlling), there should be criteria to give reasonable assurance that management objectives in that area are being met. The criteria are the basis for the control. This is illustrated with examples for a Research and Development Department.⁴⁴

⁴⁰ Lawrence B. Sawyer, "The Anatomy of Control," The Internal Auditor (June 1964), p. 73.

⁴¹ *Ibid.*, p. 75.

⁴² Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 152.

⁴³ Sawyer, The Practice of Modern Internal Auditing, p. 74 – 80.

⁴⁴ *Ibid.*, p. 74-76.

Evaluation

Sawyer gives practical examples of how to test and evaluate internal controls in his award winning article published in 1964. The major objectives are identified as well as the controls to achieve those objectives. The auditor then tests the controls to make sure they are working. In this manner the audit work will relate to management's objectives for the activity.⁴⁵

Another article on the topic was published in 1970 entitled "Internal Control – the Internal Auditor's 'Open Sesame'." Just as the magic words enabled entrance to a cave full of hidden treasure in the classic story, internal control can be magic words to allow the internal auditor entrance to operating departments. Internal controls will also unlock the doors to the problems that may be hidden inside. The treasure is the improved understanding of the operation of the activities in these departments.⁴⁶ He gives a specific example of an operational audit based on the operating objectives and controls for an engineering department of a company.⁴⁷

Problems with Internal Control

Sawyer discusses objectivity and control systems. He states that management is responsible for installing control systems. Internal auditors are responsible for monitoring the system. This includes letting management know if the system is functioning properly or if there are weaknesses and if corrective action is needed. In The Practice he warns of specifying an exact solution as the auditor could not be objective in

⁴⁵ Sawyer, "The Anatomy of Control," p. 76 – 79.

⁴⁶ Lawrence B. Sawyer, "Internal Control – the Internal Auditor's 'Open Sesame'," The Internal Auditor (January/February 1970), p. 36.

⁴⁷ Ibid., p. 43.

future audits of the system.⁴⁸ In the second edition, a more direct statement is made that comes from the professional standards. Internal auditors should never design or install systems that they will someday evaluate.⁴⁹

In the second edition, Sawyer warns of over-controlling through the use of excessive, redundant, useless, and/or expensive controls.⁵⁰ The U.S. Foreign Corrupt Practices Act of 1977 required internal controls. Management and internal auditors had to determine what would be considered an adequate system. Sawyer was worried that they would go too far with controls. Also management overriding controls was acknowledged. An example policy statement is provided that addresses this concern.⁵¹

In the fourth edition the authors point out some other problems that can result from controls. Overemphasis results in control being the end rather than the means, and result in restricted initiative. The systems can become obsolete. Controls can be circumvented by employee collusion. When reviewing controls the internal auditor must give consideration to these problems.⁵²

Developments

The requirements of the U.S. Foreign Corrupt Practices Act of 1977 are incorporated into the second edition. The Act requires that internal accounting controls be devised and maintained to provide reasonable assurance that transactions are authorized and accounted for and that assets are safeguarded.⁵³ Documentation is important because it provides evidence of compliance.⁵⁴

⁴⁸ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 320.

⁴⁹ Sawyer, The Practice of Modern Internal Auditing, p. 54.

⁵⁰ *Ibid.*, p. 77.

⁵¹ *Ibid.*, p. 77-79.

⁵² Sawyer and Dittenhofer, p. 123.

⁵³ Sawyer, The Practice of Modern Internal Auditing, p. 68.

⁵⁴ *Ibid.*, p. 69.

In evaluating compliance, Sawyer recommends following guidance of the American Institute of Certified Public Accountants (AICPA) committee on internal accounting control. This evaluation should be organized by business cycles: revenues, expenditures, production, financing, and external financial reporting. The objectives and criteria for each cycle are focused on authorization, accounting, and safeguarding.⁵⁵ Example controls are provided for the revenue cycle and the expenditure cycle.⁵⁶

The third edition includes Statement on Internal Auditing Standard No. 1 (SIAS 1), "Control: Concepts and Responsibilities," which was issued in July 1983. It provides criteria for the evaluation of control systems. It is more comprehensive than the AICPA guidance, covering administrative controls as well as accounting related controls.

With the fourth edition, the authors updated the chapter for the findings and recommendations of The Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO's definition of internal control includes effectiveness and efficiency of operations and compliance with laws and regulations as well as reliability of financial information and safeguarding of assets.⁵⁷

Sawyer points out that internal auditors have long claimed to be experts on control. With increased regulation has come increased responsibility for internal auditors. Management needs and expects internal auditors to be unbiased observers with the capability to evaluate control systems throughout the organization. Sawyer says this is one of the major reasons management establishes the internal auditing function.⁵⁸

⁵⁵ Ibid., p. 70.

⁵⁶ Ibid., p. 72-73.

⁵⁷ Sawyer and Dittenhofer. p. 84-86.

⁵⁸ Sawyer, The Practice of Modern Internal Auditing, p. 55.

Audit Program

Sawyer describes what an audit program is, its purpose, and what it should contain. There seems to have been a change toward including more detail in the audit program during the early 1970's.

Defined

An audit program is an important part of planning. Sawyer said it is a detailed plan of action for an audit examination. It is as important to an auditor as a map is to a navigator. In The Practice he says, "A good program is a guide, a lifeline, and a means of self control for the auditor. Apart from keeping him on track, it will help keep him on budget and on schedule; and it will alert him to the need to reevaluate his game plan when some aspect of the audit may require expansion – giving him reason to reduce other aspects to compensate."⁵⁹

Purpose

"All audit programs should be developed to determine whether management's objectives are being carried out and whether adequate and effective controls will provide reasonable assurance that objectives will be met."⁶⁰ In the second edition, Sawyer says that risk is a consideration. The program should help to focus the auditor on the areas likely to have problems and difficulties.⁶¹ The audit program sets forth a systematic plan, a basis for assignment of work, and an aid for supervision and training of staff. It documents the progress of the work. A working paper reference shows what has been done. It helps to insure that no steps are omitted.⁶² It is evidence of planning and of

⁵⁹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 154.

⁶⁰ Ibid., p. 166.

⁶¹ Sawyer, The Practice of Modern Internal Auditing, p. 149.

⁶² Ibid., p. 144.

defining the audit scope and objectives that may be useful to external auditors in coordination of the audit work.⁶³

Contents

Sawyer recommends that audit programs have the following:

A statement of the objectives of the activity. A listing of the existing or needed controls. Suggestions for what to test. Allocations of audit budget for the audit steps. Provision for brief comments on the results of tests, to give a continuous overview of what has been encountered in the audit.⁶⁴

The Handbook has a project checklist that includes items to consider when preparing the program.⁶⁵ In the second edition, Sawyer writes that audit programs should be approved and significant changes approved, in advance.⁶⁶

Sawyer recommends reviewing the literature for new ideas from experienced practitioners.⁶⁷ Goals for an imaginative management type audit are contrasted with that of a purely financial audit.⁶⁸ Creativity starts with not being content with things the way they are. He recommends taking a fresh look at the audit program. Make sure that it is related to the objectives of the activity, risks that could stand in the way, and controls necessary to avoid the risk and insure objectives are met.⁶⁹

Increasing Detailed Guidance

Sawyer says in The Practice that the detailed audit steps are listed in the scope section of the working papers, not in the audit program. The audit program is a guide. It

⁶³ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 162.

⁶⁴ Ibid., p. 159.

⁶⁵ Heeschen and Sawyer, p. 134.

⁶⁶ Sawyer, The Practice of Modern Internal Auditing, p. 163.

⁶⁷ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 166.

⁶⁸ Ibid., p. 156.

⁶⁹ Sawyer, "The Creative Side of Internal Auditing," p. 61.

should not stifle initiative or imagination.⁷⁰ The audit program should be flexible to allow for changing conditions that were unanticipated during the preliminary survey.⁷¹

In the second edition, the statement about omitting detailed audit steps has been taken out. Rather than the short list above of what the audit program should include, there is an expanded discussion of criteria. Rather than saying the audit program should include suggestions for what to test, Sawyer now says “Work steps should include positive instructions”.⁷² Standardized wording is suggested for clear instruction. The reasons for this change will be included in the conclusion of this chapter.

Fraud

In The Practice fraud is first discussed as a planning consideration, but internal auditors should always be alert for the possibility of wrongdoing. The writings of Sawyer describe fraud, discuss what can be done about it, and discuss the internal auditor’s responsibility where fraud is concerned.

Description

Sawyer was one of the authors of an award winning article on the topic of management fraud written in 1979. There is an endless variety of ways management can commit fraud. The authors discuss some specific examples, some motivating factors and its effect on the company.⁷³ When planning and conducting the audit, there are seven symptoms to keep in mind that could indicate fraud. These are explained and

⁷⁰ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 144

⁷¹ *Ibid.*, p. 160.

⁷² Sawyer, The Practice of Modern Internal Auditing, p. 158.

⁷³ Lawrence B. Sawyer, Albert A. Murphy and Michael Crossley, “Management Fraud: The Insidious Specter,” The Internal Auditor (April 1979), p. 17 – 19.

illustrated.⁷⁴ The second edition of The Practice includes a discussion of the types of fraud and the legal requirements.⁷⁵

What Can Be Done About It

In the second edition of The Practice fraud is expanded into a separate chapter. Much of the material from the award winning article is incorporated. Sawyer perceived that the environment and attitudes of senior management are important to set the tone of what is unacceptable. He discusses conditions that can create a climate for fraud and what companies can do to fight it.⁷⁶

Internal Auditor's Responsibility

Sawyer states in The Practice that internal auditors have no responsibility for the detection of fraud. They cannot be insurers against fraud. They should use due professional skill and care in performing an examination. This requires knowledge and training to be alert for the indicators of fraud. A list of danger signs and common forms of fraud are included.⁷⁷

In The Practice, Sawyer advises consultation with experts when fraud is suspected because of the danger of lawsuits for false imprisonment, slander, and defamation of character.⁷⁸ In the 1979 article on management fraud, this responsibility is discussed in more detail. The authors agree that letting experts handle the investigation is best. Internal auditors can coordinate with external auditors, legal staff, legal council and

⁷⁴ Ibid., p. 19 – 20.

⁷⁵ Sawyer, The Practice of Modern Internal Auditing, p. 715.

⁷⁶ Sawyer, The Practice of Modern Internal Auditing, p. 716.

⁷⁷ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 120-123.

⁷⁸ Ibid., p. 122.

consultants skilled in fraud investigation. The internal auditors' role would be to gather evidence.⁷⁹

In the second edition of The Practice, Sawyer quotes the standards that are consistent with his earlier writings. In addition, internal auditors should identify weaknesses in controls and recommend improvements. The standards include a responsibility for communication with authorities when fraud is suspected. The internal auditor must notify authorities within, but not outside, the company.⁸⁰ Also in the second edition, Sawyer recommends conducting trend and proportional analysis to identify unusual amounts and percentages that could be indicators of error or irregularity.⁸¹

Sawyer adds a section in the third edition for the investigative process. Internal auditors can collect documents as evidence and interview personnel to get the facts.⁸² Sawyer recommends internal auditors be aware of what the court sees as evidence of fraudulent intent. A listing of cases and examples is provided to help in collecting evidence.⁸³

Statement on Internal Auditing Standards No. 3 is quoted in the third edition. It emphasizes that the internal auditor should be able to detect fraud indicators and follow-up appropriately. Internal auditors must study fraud cases to identify weaknesses in control and to detect similar frauds in the future.⁸⁴ They relate some new ways fraud is being committed and the new laws enacted to deal with it. A useful list of controls helpful in preventing computer fraud is provided.⁸⁵ In the fourth edition, examples and

⁷⁹ Sawyer, Murphy and Crossley, p. 20.

⁸⁰ Sawyer, The Practice of Modern Internal Auditing, p. 719.

⁸¹ *Ibid.*, p. 728.

⁸² Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 1020.

⁸³ *Ibid.*, p. 1022.

⁸⁴ *Ibid.*, p. 1006 and 1008-1009.

⁸⁵ *Ibid.*, p. 1003.

cases are omitted. Instead, readers are told that published literature is full of examples and as professionals it is their responsibility to keep up with what is new.⁸⁶

In an article written in October 1994, Sawyer gives advice to internal auditors on giving depositions or testimony in court as a witness.⁸⁷ The internal auditor can also provide a service by preparing analysis for use in legal matters.⁸⁸ He advises auditors to discuss matters with counsel and any written material be kept in the attorney's files, which are considered privileged.⁸⁹

Modern Techniques

Keeping up to date with the modern methods includes using statistical sampling, quantitative methods, and computer auditing. Computer auditing includes both auditing the computer and using the computer in auditing.

Statistical Sampling

Sawyer attempts to convince internal auditors that statistical sampling is not that difficult and anyone can and should use it. He published an article about an early court case that illustrated that internal auditors needed to know more. Another article was written to show how simple statistical sampling could be. The material in The Practice is also written to motivate the reader to use statistics and show the techniques of how to apply the methods to different audit situations.

⁸⁶ Sawyer and Dittenhofer, p. 1182.

⁸⁷ Lawrence B. Sawyer, "Sworn Depositions," Internal Auditor (October, 1994), p. 52.

⁸⁸ *Ibid.*, p. 48.

⁸⁹ *Ibid.*, p. 49.

Early Court Case

A 1967 article entitled “The Lawyer, the Statistician and the Internal Auditor” tells about an interesting court case in 1955, wherein statistical sampling was not allowed as evidence. Sawyer pinpoints the problem with this witty question and answer. “How ample is a sample? Just about the same. Not exactly the same.”⁹⁰ What he means is that one cannot say that the population will be exactly like the sample tested.

After the sample was rejected and the internal auditors were forced to test every transaction in the case, the results were amazingly close to the projection made from the sample. It took 300 hours to audit the sample and 3,384 hours to audit the entire population.⁹¹ This illustrates how auditors can use sampling to reduce time in auditing.

Part of the problem in this particular case was in being able to explain sampling to a jury. Sawyer gives a set of rules that he calls a blueprint for progress with sampling. These include understanding it well enough to effectively explain it to anyone.⁹²

Simple Sampling

Sawyer wrote an article in 1968 encouraging internal auditors to use statistical sampling in their work. This article won the Thurston Award for writing excellence. The title is “Simple Sampling, How to Stop Worrying and Learn to Love Statistical Tables.” He gives ten simple principles that should be sufficient for use of statistical sampling. See Table 9. His goal is to show how easy it can be to “live with statistics without worrying about them” and make use of them as needed. “All that is necessary is to

⁹⁰ Lawrence B. Sawyer, “The Lawyer, the Statistician and the Internal Auditor” The Internal Auditor (Summer, 1967), p. 10.

⁹¹ *Ibid.*, p. 15.

⁹² *Ibid.*, p. 18.

Table 9

Sawyer's Ten Principles of Sampling

- 1 Auditor first, statistician second.
 - 2 The name of the game is sampling, just sampling.
 - 3 Opinions may properly be based only on the population from which the sample was taken.
 - 4 Every item in the population must have an equal chance of being selected.
 - 5 The auditor and only the auditor, can decide what he is willing to accept in terms of Confidence Level – that is, the number of times out of 100 that the sample he selects will contain the true answer about the entire population (within a specified range).
 - 6 Only the auditor can decide the range of Precision that he needs - that is the range within which the true characteristic tested will fall at a stipulated Confidence Level.
 - 7 All statistical sampling plans are based on the fact that the selection is completely at random.
 - 8 No items should be missing from the population to be sampled.
 - 9 The population should not be arranged in a pattern that will affect the randomness of selection.
 - 10 Every start in an internal sample selection must be made at random.
-

remember a few principles, learn a few sampling plans, and become acquainted with a few sample selection techniques.”⁹³

In the article he uses illustrations and examples taken from the Sampling Manual for Auditors. He edited and participated in writing this practical statistics manual while working at Lockheed Aircraft Company. It was a group effort among the internal auditors at Lockheed. They gave it to the IIA to publish and distribute to all the members as a way to help the profession progress in the use of scientific methods. While still at Lockheed he wrote and edited a second book that covered more advanced applications of statistics in internal auditing. It also was also given to the IIA and shared with members.

Motivation

In 1973, when The Practice was published, Sawyer was still trying to convince auditors that they needed to use statistical methods.

Scientific sampling isn't all that hard. There's really no great trick to understanding it. In fact, the biggest barrier to becoming familiar with it is probably the name it goes under: statistical sampling. That name conjures up visions of formidable formulas and abstruse mathematical concepts. It needn't but it does. So for our purposes let us call the subject sampling – just sampling. And this is something the auditor has been doing all his professional life.

Sampling, in essence, is the process of learning about a lot by looking at a little. . . Sampling, then, is just another tool that the auditor uses to shape his opinion. It is not an end in itself. It is only a means toward an end. . . . The mathematics need not be difficult. In fact, once the closed mind is opened to permit a clear view of some basic principles, the vista becomes rather inviting. Indeed, the feeling of satisfaction and accomplishment is worth the little trouble it takes to cross the threshold of distrust and find understanding.

The veteran auditor with thousands of samplings behind him may well ask, “I've done all right so far, so why do I have to learn this scientific mumbo jumbo?” That question, in today's environment, is readily

⁹³ Lawrence B. Sawyer, “Simple Sampling, How to Stop Worrying and Learn to Love Statistical Tables,” The Internal Auditor (July/August 1968), p. 64.

answered: The samples he used couldn't be defended. Most likely nobody knew enough to dispute his samples – samples which may not have been representative of the population sampled, whose results could not be objectively measured, or indeed, which might have been excessive, wasting both the auditor's and the client's time and patience. There is little doubt that a shrewd challenge to many of the veteran's samples could have left him floundering and defenseless.⁹⁴

The Techniques

In The Practice Sawyer covers statistical sampling in three sections, how to select a sample, determine its size, and evaluate the results. In a section entitled "Statistical Theory Simplified" he uses simple illustrations to explain precision, confidence level, variability, the normal distribution, and standard deviation.⁹⁵ He gives the ten commandments of sampling for readers, included in Table 10.⁹⁶

Sawyer recommends sample selection techniques to use for populations with different characteristics, and sampling plans for audits with different purposes.⁹⁷ Statistical tables are reproduced in appendices to the book for easy reference.

By 1991, there was no longer the need to convince; internal auditors were expected to know and use statistical methods. Computer programs had made it much easier, but the auditor still needed to know which program to use, which sampling plan is appropriate, and how to interpret the results.⁹⁸

⁹⁴ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 178-179.

⁹⁵ Ibid., p. 192.

⁹⁶ Ibid., p. 213.

⁹⁷ Ibid., p. 215.

⁹⁸ Lawrence B. Sawyer, "Internal Auditing: Practice and Professionalism" Internal Auditor, June 1991, p. 42.

Table 10

Sawyer's Ten Commandments of Sampling

-
- 1 Know the principles of scientific sampling – but use them only when they best fit the audit objectives.
 - 2 Know the population, and base audit opinions only on the population sampled.
 - 3 Let every item in the population have an equal chance of being selected.
 - 4 Do not let personal bias affect the sample.
 - 5 Do not permit patterns in the population to affect the randomness of the sample.
 - 6 The purposive (directed) sample has its place; but do not draw conclusions about the entire population from it.
 - 7 Base estimates of maximum error rates on what is reasonable in the real world – try to determine at what point alarms would automatically go off.
 - 8 Stratify wherever it would appear to reduce variability in the sample.
 - 9 Do not set needlessly high reliability goals (confidence level and precision). Controls, supervision, feedback, self-correcting devices and management awareness and surveillance should all be considered in seeking to reduce the extent of the audit tests.
 - 10 Do not stop with the statistical results – know why the variances occurred.
-

Quantitative Methods

Sawyer writes to motivate readers to know about and use the latest scientific methods. He introduces various methods and gives internal auditing applications. An article published in 1981 is a motivating success story. Knowledge, applications and the story are described below.

Knowledge

In The Practice Sawyer explains the importance of keeping up to date with modern methods such as brainstorming, mathematical modeling, probability theory, regression analysis, linear programming, queuing theory and game theory. Management tools such as Program Evaluation and Review Techniques and Critical Path Method (PERT and CPM) can be useful in project management. The latest methods should be part of the continuing education for the professional internal auditor.⁹⁹

Applications

In the second edition of The Practice, Sawyer expanded the quantitative methods section into a completely separate chapter. Each of the different methods is briefly introduced and discussed. Practical applications for the methods are suggested and several detailed examples are provided. Guidance is provided for auditing a mathematical model.

Sawyer realizes that there may be a need to get the help of experts and gives tips on how the internal auditors can monitor the job and coordinate efforts with these consultants.¹⁰⁰

⁹⁹ Ibid., p. 61 – 66.

¹⁰⁰ Sawyer, The Practice of Modern Internal Auditing, p. 325 –339.

Motivating Success Story

In an article published in 1981, Sawyer gives an excellent example of internal auditors using statistics and mathematical analysis for the benefit of management. Government auditors were checking the work of a private government contractor. They observed employees at work and determined that nonproductive time was 24% to 30% at an annual cost of \$500,000.¹⁰¹ Management asked their internal auditors to check out the calculations of the government auditors. In the words of the internal auditors, "We were able to point out to the government auditors that their curves and their dollar projections were suspect, that observations during a deliberately selected two-week period could not be considered representative of an entire year, that projections of samples from a shifting population are not statistically supportable, and that the use of the asymptote as a measure of productivity is open to question."¹⁰² The internal auditors were considered champions by management.

In 1991, Sawyer wrote an article about changes in the profession. He was still trying to motivate internal auditors to learn about these methods.

Managers are turning more and more to quantitative models for assistance in making business decisions. And where management goes, the internal auditor should be prepared to follow. Indeed, where the manager doesn't know the path, the internal auditor should be a knowledgeable guide.¹⁰³

¹⁰¹ Lawrence B. Sawyer, "Consultant to Management: The Internal Auditor's Emerging Role," The Internal Auditor (June 1981), p. 31.

¹⁰² *Ibid.*, p. 32.

¹⁰³ Sawyer, "Internal Auditing: Practice and Professionalism," p. 42.

Internal Auditing and Computers

Sawyer attempted to motivate internal auditors to learn more by writing about ways they would be able to help management, what they should know, and what could happen if they ignore this area. Controls and audit considerations are emphasized.

Helping Management

In The Practice, Sawyer writes that internal auditors have a responsibility to help management in whatever way is needed. Management will need the internal auditor's help in evaluation of systems installation, deciding what applications to automate, building controls into the system, safeguarding the computer facility and files, and insuring there are controls over access.¹⁰⁴ Examples are given to point out the need for audit surveillance.¹⁰⁵

In The Practice, examples are given to illustrate the cost of waiting to audit until after a system is installed.¹⁰⁶ To be an effective member of the installation team, the internal auditor must have the support of management. Using salesmanship, the internal auditors can convince team members of the importance of controls. The auditor must be able to converse intelligently with systems people to gain their respect. A list of about fifty suggested questions is provided for evaluation in a feasibility study.¹⁰⁷

What Internal Auditors Should Know

In The Practice Sawyer warns internal auditors that they must obtain a basic competence in computers. This requires that they continually study to keep up to date with the complex and expanding technology. Every audit department needs electronic

¹⁰⁴ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 217.

¹⁰⁵ Ibid., p. 218.

¹⁰⁶ Ibid., p. 222.

¹⁰⁷ Ibid., p. 223-226.

data processing (EDP) audit specialists who can deal with any computer problem. But all auditors should have a general knowledge. A listing of EDP controls and checks is provided as a guide for the expertise of the specialist.¹⁰⁸

Controls and Audit Considerations

Considering that The Practice was written in 1973, Sawyer gives a very comprehensive coverage of computer concerns. In the area of physical security and disaster control, he gives ten suggestions for protection of the computer facility and provides seven tips for record protection.¹⁰⁹ Programming controls are discussed as well as controls for input, processing and output of data. Examples illustrate these controls. A control listing published by the Canadian Institute of Chartered Accountants is provided as a reference. It has approximately 250 items.¹¹⁰ Other considerations suggested for audit consideration are obsolescence of the hardware and most efficient and effective way to use the computer resources.¹¹¹

Sawyer warns of vanishing audit trails as new on-line, real-time systems become more common. He foresaw that there would be a need for continuous auditing of these systems. In the discussion of how to audit these systems and the controls that are needed, the emphasis is on testing of the system rather than transactions.¹¹²

In the second edition Sawyer uses material published by the General Accounting Office on reviewing system design and development, general controls and application

¹⁰⁸ Ibid., p. 249.

¹⁰⁹ Ibid., p. 227.

¹¹⁰ Ibid., p. 252-273.

¹¹¹ Ibid., p. 244.

¹¹² Ibid., p. 237.

controls. In each area, Sawyer discusses internal control, internal audit responsibilities, suggestions for review, and questions to ask.¹¹³

Motivation

Per the professional standards, internal auditors are required to examine information systems to determine that reporting is accurate, reliable, timely, complete and useful, and to determine that controls over record keeping and reporting are adequate and effective.¹¹⁴ Sawyer also points out that it may be impossible to show compliance with the U.S. Foreign Corrupt Practices Act of 1977, or even compliance with generally accepted accounting principles without that examination of information systems.¹¹⁵

Writing in 1991 about changes that have occurred in the profession, Sawyer says that computer literacy was once nice to have. Now, it has become essential if internal auditors are to do their jobs. They need both technical know-how and hands-on experience for the same reason as in 1973. "Managers desperately need internal auditors to protect them."¹¹⁶

Computer Assisted Auditing

Internal auditors are using computer applications in their own testing. Examples are given in The Practice of how auditors have used computer auditing in specific situations effectively and more efficiently to test large volumes of data.¹¹⁷ Simulations and different types of computer audit programs are discussed.

¹¹³ Sawyer, The Practice of Modern Internal Auditing, p. 347-403.

¹¹⁴ Ibid., p. 344.

¹¹⁵ Ibid., p. 345.

¹¹⁶ Sawyer, "Internal Auditing: Practice and Professionalism," p. 41.

¹¹⁷ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Manage, p. 245-248.

In the second edition, computer-assisted auditing is covered in more detail in a separate chapter. The steps involved in parallel simulation and audit applications are explained. An example of a computer-assisted audit using a commercial software product is described in detail to illustrate advantages.¹¹⁸ Different options, steps involved, and advantages are discussed.¹¹⁹

Internal auditors have come a long way in computer-assisted auditing. In 1991 Sawyer writes that it has enabled auditors to extend their scope enormously. The lap-top computer had made it possible to take computer-assisted auditing out of the central office. The result was that it had taken “much of the donkey work out of internal auditing while handling detail with greater speed and accuracy.”¹²⁰

Sawyer’s thinking on knowledge of computers carries through all editions and is best described in his own words.

The internal auditor cannot be blind or deaf to anything of significance that touches the company. And computers are assuming a significance of prodigious proportions. All internal auditors should know enough about EDP to feel no misgivings when their audits bring them into contact with the computer. Some internal auditors in each auditing organization should have a thorough-going familiarity with data processing systems. No internal auditor would bury his head in the sands of apathy and indifference and hope the computer will go away. It won’t. All that will vanish is the internal auditor’s image as the eyes and ears of management.¹²¹

Fieldwork

Fieldwork includes every process of the audit that is not planning or reporting. The word refers to the work done on location (in the field). It involves measurement of

¹¹⁸ Sawyer, The Practice of Modern Internal Auditing, p. 421-423.

¹¹⁹ *Ibid.*, p. 416-421.

¹²⁰ Sawyer, “Internal Auditing: Practice and Professionalism,” p. 41.

¹²¹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 250.

some activity against some predetermined standards. The internal auditor accumulates evidence by conducting tests. The work is supervised and documented in working papers. The result is called findings. Negative findings will require corrective action, and follow-up work in the field may be required to see that it is effective. Some work is called management studies because it is more in the nature of consulting than auditing.

Measurement and Standards

Sawyer says fieldwork is measuring and evaluating. This is based upon the IIA statement of responsibilities, a definition for the practice of internal auditing. It says that internal auditing is a control that measures and evaluates the effectiveness of other controls. Units of measurement could be dollars, or hours, or pounds or people or anything quantifiable.¹²² There must be some way that an activity can be judged against a standard for acceptability. It gives the auditor the ability to make an objective rather than subjective evaluation.

Standards relate to cost, quality, and time and are found in job instructions, company directives, budgets, product specifications, generally accepted accounting principles, internal controls, contracts, statutes, etc. The standards should be related to the objectives of the activity.¹²³ If there are no standards the auditor must construct them. This should be done with the aid of management and an objective expert in the field. For example, safety standards could be checked with a representative from the National Safety Council.¹²⁴ The auditor and management must come to an agreement to avoid

¹²² Ibid., p. 274.

¹²³ Ibid., p. 275.

¹²⁴ Ibid., p. 277.

fruitless argument.¹²⁵ The auditor must also evaluate the standard for continued relevance under changing conditions.¹²⁶

Evidence

During fieldwork the auditor gathers data to support the audit findings called evidence. Evidence causes one to believe a proposition is true. The internal auditor should use valid evidence that is the most convincing available. For example, information from an objective source, such as someone from outside the company, would be more convincing than information from the supervisor of the activity being audited. Different types of evidence are discussed. Included is the hearsay rule. This is when someone says they heard someone else say something or saw someone else do something. The auditor must get the information from the source. Another rule is that evidence should be factual-- not based on opinion. The only time that an opinion is acceptable as evidence is in the case of an objective expert.¹²⁷

In the second edition, the discussion of evidence is expanded to include different types of audit evidence such as physical (observation), testimonial (answers to questions), documentary (cancelled checks, records, source documents, and correspondence), and analytical (computation and comparison). The attributes of audit evidence are explained. All audit evidence should be sufficient, competent, and relevant.¹²⁸

¹²⁵ Ibid., p. 282.

¹²⁶ Ibid., p. 279.

¹²⁷ Ibid., p. 312-314.

¹²⁸ Sawyer, The Practice of Modern Internal Auditing, p. 204-206.

Testing

“Testing determines whether something is as it should be.”¹²⁹ The audit fieldwork consists of either surveys or detail testing or a combination of these. The auditor makes the determination based on the adequacy of internal controls and the risk involved. Sawyer explains risk simply as the likelihood of serious consequences resulting from improper functioning of an operation.¹³⁰ Sawyer discusses techniques, objectivity, objectives, different types of audits, and working with consultants.

Techniques, Objectivity, and Objectives

The various techniques of observing, questioning, analyzing, comparing, investigating, and evaluating are explained.¹³¹ The second edition gives examples for each of these techniques. The examples are real cases reported in The Internal Auditor.¹³² The material is updated with the fourth edition to explain the methods used to evaluate productivity.¹³³

In the fourth edition, the introduction for fieldwork is expanded to include a discussion on objectivity. As part of the gathering and evaluating of evidence, the auditor must have a professional attitude of objectivity and skepticism.¹³⁴

Four objectives in testing are explained. The objectives are to determine validity, accuracy, and compliance with policies, laws and regulations, and evaluate controls for effectiveness in neutralizing risks.¹³⁵ Examples are provided from previous Certified

¹²⁹ Sawyer and Dittenhofer, p. 255.

¹³⁰ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 280.

¹³¹ *Ibid.*, p. 284-291.

¹³² Sawyer, The Practice of Modern Internal Auditing, p. 177-184.

¹³³ Sawyer and Dittenhofer, p. 281.

¹³⁴ *Ibid.*, p. 236-237.

¹³⁵ *Ibid.*, p. 255.

Internal Auditor (CIA) examinations for audit procedures to use for various audit objectives.¹³⁶

Different Types of Audits

The fieldwork done depends on the goals of the auditor. The goals vary for the different types of audits. Traditionally these are compliance, financial, or operational.¹³⁷

The second edition describes some more unusual types of audits that illustrate a broadening scope, such as contract audits, administrative audits, and management studies.¹³⁸

Internal auditors are helping management fulfill their responsibilities for establishing and maintaining an effective internal control system under the U.S. Foreign Corrupt Practices Act of 1977. Internal control fieldwork should consist of testing the system, reporting weaknesses, and reporting whether the system is effective. Sawyer cautions internal auditors on assessing whether the controls give the reasonable assurance called for in the act because that would be a legal compliance decision.¹³⁹

Working with Consultants

Often an ordinary operational audit of a technical activity may require the use of an expert. In that case, the consultants can assist, but they should not be allowed to take over the evaluation. Internal audit staff should be assigned to work with the expert(s). Internal auditors should understand the nature of the consultant's work, their reasoning, any risk inherent in their work, and if it conforms to intentions. The final report and

¹³⁶ Ibid., p. 246-249.

¹³⁷ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 291-296.

¹³⁸ Sawyer, The Practice of Modern Internal Auditing, p. 195-198.

¹³⁹ Sawyer, The Practice of Modern Internal Auditing, p. 206.

opinion is the internal auditor's. The consultant's opinion should be quoted only if it is clearly beyond the internal auditor's competence relating to technical matters.¹⁴⁰

Supervising the Audit

Although stifling independent thinking is a concern, Sawyer writes that it is more important for the auditors to have guidance, and the director must communicate the standards that will be acceptable in conducting an audit. For this purpose he recommends a technical audit manual to address the proper performance of an audit.¹⁴¹ Sawyer wrote that all audit plans, including the audit program, were to be reviewed and approved, and all activities of the audit staff supervised.¹⁴²

With the second edition, Sawyer said that supervision was the best way to control an audit. "A competent supervisor can warn of pitfalls, help in the preparation of professional working papers, help maintain good auditor-auditee relations, monitor budget and schedule and help reverse adverse trends, review audit reports, and see that essential elements are not missing from the audit project."¹⁴³ The standards for the professional practice of internal auditing are quoted on the functions and documentation of supervision.¹⁴⁴ Sawyer discusses supervisor duties in the areas of planning, preliminary survey, audit programs, field work, exit interviews, reporting, report reviews, and closing the project.¹⁴⁵

¹⁴⁰ Ibid., p. 194.

¹⁴¹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 14.

¹⁴² Ibid., p. 10-11.

¹⁴³ Sawyer, The Practice of Modern Internal Auditing, p. 643.

¹⁴⁴ Ibid., p. 644.

¹⁴⁵ Ibid., p. 644-646.

Working Papers

Sawyer includes the purposes and preparation of working papers in The Practice.

Some legal issues and developments pertaining to working papers are also discussed. He introduces the topic as follows:

Skillfully prepared working papers are the trademark of the professional – of the experienced, seasoned auditor who has learned from past audits how fleeting memory can be. He is rarely distracted by the pressures of field work, of budgets, or of intriguing investigations, from carefully and currently recording his findings and conclusions. Just as the scientist meticulously documents experiments, so does the experienced auditor document his work and the supporting detail for his conclusions and opinions. Scientific method is as much a part of the techniques of the auditor as it is a part of the practices of the research chemist.¹⁴⁶

Purpose

Sawyer writes that working papers document the audit work that has been done. They provide support for deficiency findings, for the audit report, for supervisory review, external auditor review and quality control review. The working papers provide a basis for staff evaluation and as a source of information in the future.¹⁴⁷ They should contain evidence of follow-up and disposition of previous findings, and show that competent, sufficient, and relevant evidence was obtained for the audit report.¹⁴⁸

Preparation

Consistency and neatness will make audit working papers more economical to prepare and use. They should be logically numbered, indexed, cross-referenced and referenced to the audit program.¹⁴⁹ A working paper indexing and filing system is

¹⁴⁶ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 330.

¹⁴⁷ *Ibid.*, p. 330-332.

¹⁴⁸ Sawyer, The Practice of Modern Internal Auditing, p. 779.

¹⁴⁹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 333-335.

discussed.¹⁵⁰ The working papers should contain findings, factual evidence, the opinion, and recommendations.¹⁵¹

All working papers should be reviewed and all the reviewer's questions should be addressed. These questions and answers should be retained in the working papers.¹⁵²

The Handbook includes a detailed working paper checklist of 15 items that would be useful for the auditor in the field or the reviewing auditor.¹⁵³ Also there is a checklist for manager level review before the audit report is released that includes many items pertaining to the working papers.¹⁵⁴

Legal Issues

In the second edition, Sawyer adds that the working papers are the property of the internal auditor. They should be physically protected and access to them controlled.¹⁵⁵

Working papers should be retained until no longer needed.¹⁵⁶ Sawyer recommends reviewing and destroying working papers frequently.¹⁵⁷

With the third edition Sawyer adds a discussion of legal cases involving surrender of internal audit working papers. The requirements that the IRS must show before attaining access to the working papers is listed and discussed. The cases and conditions when access was denied are discussed.

¹⁵⁰ Ibid., p. 116-117.

¹⁵¹ Ibid., p. 342.

¹⁵² Ibid., p. 335.

¹⁵³ Heeschen and Sawyer, p. 137.

¹⁵⁴ Ibid., p. 138-139.

¹⁵⁵ Sawyer, The Practice of Modern Internal Auditing, p. 258.

¹⁵⁶ Ibid., p. 270.

¹⁵⁷ Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 362-366.

Developments

Sawyer updates the third edition by introducing the topic of computerized working papers. They can be stored electronically, reviewed and updated as needed.¹⁵⁸ In the fourth edition, developments include continuous monitoring of data. On-line communication allows working papers to be reviewed and approved by supervisors at the home office while staff are still in the field for improved efficiency of the audit.¹⁵⁹

Findings

In The Practice, Sawyer includes the evaluation and documentation of findings, and discussion of findings with personnel. Corrective action is the responsibility of management.

Evaluation and Documentation

Evaluation per Sawyer is the process of viewing the results of testing through the eyes of management to decide if the operation is functioning efficiently and effectively. Guidance is provided with a list of considerations. The auditor does not want to nit-pick. He or she wants to point out areas where a material contribution can be made or where there is a risk and controls are needed.¹⁶⁰ Sawyer writes the following.

The auditor must look at the results of his efforts and ask himself: "If this were my company, if I were its president and were appraising the results of my efforts, what would I do about them?" . . . The careful, intelligent appraisal of audit results is the hallmark of the professional auditor. This is what constitutes so-called management auditing – seeing audit results through the eyes of a manager. The eager, inexperienced auditor, in hot pursuit of deficiency findings, gauging his own worth by the quantity of

¹⁵⁸ Ibid., p. 360.

¹⁵⁹ Sawyer and Dittenhofer, p. 370.

¹⁶⁰ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 316.

defects he unearths – never mind the quality – is the bane, not the aid of management. Such an auditor must be taught to raise his sights.¹⁶¹

Findings should be significant, factually documented, convincing and compel action.¹⁶² The elements of a deficiency are presented and discussed in detail including: standards, condition, procedures, cause, effect, conclusion, and recommendation.¹⁶³

Sawyer includes pointers for supervisory review of a deficiency finding to be certain that it is beyond reproach and will stand up to a defensive attack by the auditee.¹⁶⁴ The determination of the underlying cause is essential to the cure. If it is not properly identified the corrective action may address only the symptom and not the real cause.¹⁶⁵

Discussion with Auditee

All findings should be discussed at the operating level, with the person responsible, as the audit progresses, except in the case of fraud. The details, discussion, and corrective action proposed should be documented.¹⁶⁶ At the discussion of findings the auditor can bring up good results, “making the bad more palatable.”¹⁶⁷

The auditor cannot insist upon corrective action. That is the responsibility of management. The auditor may have to sell his ideas by pointing out the advantages.¹⁶⁸ In a 1983 article Sawyer says the auditor could be overstepping his authority if it appears in the report that the auditor is directing or making line decisions. The internal auditor is

¹⁶¹ Ibid., p. 317.

¹⁶² Sawyer, The Practice of Modern Internal Auditing, p. 213-218.

¹⁶³ Ibid., p. 219-224.

¹⁶⁴ Ibid., p. 228-233.

¹⁶⁵ Ibid., p. 222.

¹⁶⁶ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 319.

¹⁶⁷ Ibid., p. 320.

¹⁶⁸ Ibid., p. 320.

a staff position and can only recommend that correction is needed. Someone with line authority should decide what the correction will be.¹⁶⁹

Follow-up

The auditor has no right to dictate that corrections will be made but they should have the right to demand a reply to reported findings. Sawyer writes in The Practice that management directives or policy statements should specify that a reply be made in writing within a set time period and that internal auditors have the right to evaluate the reply for adequacy.¹⁷⁰

Some auditors will be satisfied with a reply that corrective action has been taken. Others will return to the site for follow-up testing to be sure the corrective action is effective.¹⁷¹ If the auditor is not satisfied with the reply, a memorandum explaining why is sent to the auditee with a copy to a higher level of management until satisfactorily resolved. Alternatively, a memorandum is sent to communicate that the internal auditor is satisfied with the response and that the report is closed.¹⁷² Examples are provided.¹⁷³

The second edition quotes the standards that require internal auditors to follow-up to determine that corrective action was taken and that it is achieving the desired result. Alternatively, management or the board of directors can assume the risk of not taking action on findings.¹⁷⁴ Sawyer reports that some auditors believe that it is enough to

¹⁶⁹ Sawyer, "Improving the Bottom Line," The Internal Auditor (August 1983), p. 23.

¹⁷⁰ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management p. 429.

¹⁷¹ Ibid., p. 430 and p. 7.

¹⁷² Ibid., p. 431.

¹⁷³ Ibid., p. 431-423.

¹⁷⁴ Sawyer, The Practice of Modern Internal Auditing, p. 231.

identify the deficiency and let management take responsibility from that point.¹⁷⁵ This view is not consistent with the professional standards or with Sawyer's philosophy.

Mortimer Dittenhofer explained that this was an issue upon which they could never agree. Sawyer believed in doing additional testing to be certain a deficiency was corrected.¹⁷⁶ Sawyer gives guidance for follow-up evaluation of corrective action with a set of criteria and with examples.¹⁷⁷ The example record-of-audit-finding form includes auditor approval of corrective action, date it was effective, and documentation of follow-up to ascertain that it was actually implemented.¹⁷⁸

Management Studies

Sawyer writes that many companies are disappointed with outside consultants. He would like for auditors to be more involved in solving problems for management. This work consists of making a study and recommending corrective action in some problem area.¹⁷⁹ Sawyer tells readers why internal auditors are well suited for this work, that salesmanship and good reporting are essential, and gives examples of studies to do.

Why Internal Auditors?

The auditor's objective attitude makes him or her trustworthy. Internal auditors are experts in operational controls. They understand their company's systems and procedures. They know the people and where to get information. They have expertise in

¹⁷⁵ Ibid., p. 231.

¹⁷⁶ Dittenhofer interview.

¹⁷⁷ Sawyer, The Practice of Modern Internal Auditing, p. 502.

¹⁷⁸ Ibid., p. 226-227.

¹⁷⁹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 305.

data gathering, analysis, and interviewing people.¹⁸⁰ Using internal auditors could save the company money.¹⁸¹

Salesmanship and Reporting

In a management study the internal auditor may be providing information to executive management. “The auditor should from the outset and throughout the engagement, employ all the techniques of salesmanship that he possesses - keeping management informed and selling his recommendations.” A formal presentation should be made to management on the problem and a plan of attack.¹⁸² The final report should discuss items corrected and what remains to be done.¹⁸³

Examples of Management Studies

Internal auditors can do ratio analysis for operating management. It may indicate the need for further investigation. Sawyer gives examples of analysis in several areas including fixed assets, personnel, inventory, and telephone usage.¹⁸⁴

In the article “Why Internal Auditing?,” Sawyer tells how internal auditors can help managers. Examples include appraising contracts, educating management on self-evaluation, evaluating design and production efficiency, and evaluating the information and reporting system for adequacy, relevancy, and timeliness.¹⁸⁵

In “Talk to Me,” a 1997 article, Sawyer explains how to help management avoid wrongful discharge cases. The internal auditor can review personnel policies in hiring,

¹⁸⁰ Lawrence B. Sawyer, “Developing Executive Compensation Programs: A Fresh Approach,” Managerial Auditing Journal (December, 1994), p. 26.

¹⁸¹ Ibid.

¹⁸² Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 307.

¹⁸³ Ibid., p. 309.

¹⁸⁴ Ibid., p. 311.

¹⁸⁵ Lawrence B. Sawyer, “Why Internal Auditing,” Internal Auditor (December, 1993), p. 46-47.

performance evaluation, and termination.¹⁸⁶ Ten rules to follow are provided such as document all the facts, give employees a chance to improve, issue a final warning, etc.¹⁸⁷

In 1994 Sawyer and his son-in-law wrote an article on developing and maintaining an effective executive compensation plan.¹⁸⁸ Internal auditors can provide analysis and data for the study.

Reporting

Sawyer relates the functions of reporting, how to write well, proofreading and editing tips, how to conduct an oral report and the importance of discussions with personnel. In The Practice Sawyer devotes almost one fourth of the book to the topic of reporting. It was obviously an important topic to him.

The Functions of Reporting

Reports are the auditor's opportunity to get management's attention as Sawyer relates in the following passage.

Much too often the auditor carelessly throws away this golden chance to open management's eyes . . . to show management what he has accomplished and what he can accomplish . . .to explain what management needs to know and what it needs to do. He throws away his opportunity by pallid prose, by making mountains out of rubbish heaps, by uninviting report formats, by allegations that won't withstand assault, by unsupported conclusions, and by complaints without recommendations.

The auditor should regard his report in the same light that a salesman regards an opportunity to present his product to the tested, well-conceived sales presentation. In this light, the audit report has two functions: First,

¹⁸⁶ Lawrence B. Sawyer, "Talk To Me, Please!" Internal Auditor (June, 1997), p. 23.

¹⁸⁷ Ibid., p. 26-27.

¹⁸⁸ Sawyer, "Developing Executive Compensation Programs: A Fresh Approach," Internal Auditor (June 1994), p. 27.

to communicate. Second, to persuade and, when necessary, sound a call to action.

But management must want to read or hear the reports. For communication to be effective, the channels must be clear – the medium must be incisive and easily understood. The story must be worthy of the material; much skillful and constructive audit effort flounders in the murky waters of poor reporting. The auditor who sharpens his auditing techniques but leaves his reporting dull will be unable to penetrate the circles where his story should be told.

And when management gives him his audience he must never forget that he is selling. So he must be consciously persuasive – by the techniques of motivation and by the style he uses. He must highlight what is management-oriented. He must downplay what is immaterial. He must artfully translate the technical into the readily understandable. And he must point skillfully to the need for taking action and the penalties for avoiding action.

Then management will begin to appreciate the significance of the audit product. It will see the valuable insights it can obtain. It will learn to accept the accuracy, the objectivity, and the plain good sense of what the auditor has to say. Then, and not until then, will the audit report become required reading for management. And this will help the auditor achieve one of his own objectives: To be privy to the councils of management and to have access to management's ear.¹⁸⁹

In the second edition Sawyer points out that the objective is to provide information that is useful in promoting operational improvement.¹⁹⁰ In the third edition, he places emphasis on an understandable explanation of the problem, support for conclusions that shows the importance of the matter, and a practical way to solve the problem.¹⁹¹

¹⁸⁹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 356-357.

¹⁹⁰ *Ibid.*, p. 433.

¹⁹¹ Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 611.

Writing the Report

The criteria discussed include accuracy, clarity, conciseness, timeliness, and tone. The tone should be courteous. The report should not name individuals. It should be objective, thoughtful and dispassionate.¹⁹² The final report should be written, reviewed by a supervising auditor, and signed by the internal audit director. Sawyer believes the report should include favorable results as well as unfavorable. The unfavorable findings are supported with facts, criteria, cause, effect, and a recommendation. Examples include both types of findings.¹⁹³

Bar charts, flowcharts and pictures are examples of graphics that will add interest to the report.¹⁹⁴ Sawyer gives some tips for good writing including a list of dos and don'ts, and a list of big words to avoid with suggested smaller word replacements.¹⁹⁵ Diligent editing will ensure accuracy, logic and acceptable style. Harvard Business Review's listing of common business writing mistakes is provided.¹⁹⁶ A listing of common mistakes in audit reports is also given.¹⁹⁷ Sample reports are provided and readers are told that more examples are available from the IIA.¹⁹⁸ The Handbook includes instructions and examples of different types of reports.¹⁹⁹

The second edition stresses that the report should be written with the reader in mind and what their expectations will be. The top management expects an overview.

¹⁹² Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 358-363.

¹⁹³ Ibid., p. 368-371.

¹⁹⁴ Ibid., p. 372-374.

¹⁹⁵ Ibid., p. 385-388.

¹⁹⁶ Ibid., p. 392.

¹⁹⁷ Ibid., p. 395.

¹⁹⁸ Ibid., p. 397-417.

¹⁹⁹ Heeschen and Sawyer, p. 217-256.

They are interested in what affects the company as a whole. The operating management expects details.

Proofreading

One of Sawyer's first journal articles was on the topic of proofreading the audit report. The following paragraph from the article relates the importance of proofreading and includes one of Sawyer's quaint sayings.

It is most unfortunate that one relatively insignificant flaw can cruelly blemish a well-written, soundly documented report. This, however, is one of our occupational hazards. The very nature of our reports – finding fault, exposing deficiencies, suggesting unwelcome changes – magnifies in the eyes of the reader any defects within the report itself. That is why the recipient of an audit report may feel that he has a perfect right to say: 'Mr. Internal Auditor, when you point your finger at me, the least you can do is see that your fingernail is clean.'

Moreover, typographical errors and other minor mistakes divert the reader's attention from the text and thereby lessen the force of the subject matter. The reader may begin to think about the writer rather than about what is written. He may begin to wonder whether errors in the text may be a reflection of substantive blunders in the documents that lie behind it. The internal auditor must therefore be exceptionally careful – not only in what he says and how he says it – but also in how successfully he has purged his report of niggling errors.²⁰⁰

Sawyer gives some tips such as laying out all the pages side by side to see inconsistencies in format, headings, spacing, and indentions. Use of a scanner can help the proofreader focus on one line at a time. It is a card with a rectangle cut out the size of one typed line. Reading backwards can focus attention on individual words.²⁰¹

Sawyer includes a list of 23 common errors that easily escape detection. Many of these are still relevant as they are common errors that our word processors do not pick up.

²⁰⁰ Lawrence B. Sawyer, "Purifying the Audit Report," The Internal Auditor (January/February 1969), p. 22.

²⁰¹ *Ibid.*, p. 24.

For example homonyms are included, words that sound identical but have different meanings and are spelled differently.²⁰²

Sawyer updates the third edition of The Practice with an IIA study on reporting problems.²⁰³ He says there are no easy solutions, but most answers can be found in improving the report writing and editing process. A style manual can be useful in setting standards, avoiding disagreements, and improving uniformity.²⁰⁴ The Handbook has an example of such a style manual.²⁰⁵

Oral Reporting

Sawyer writes about oral reports as a supplement to the formal written report. The presentation should be well thought-out, practiced, and include visual aids. The auditor should be flexible to allow for discussion in areas needed and move quickly through other material. It must be concise but complete.²⁰⁶

Discussion of the Draft Report

A draft of the report should be discussed in a face-to-face meeting with anyone who may object or anyone who would be required to take action.²⁰⁷ The purpose is to resolve conflicts and reach agreement. It is a matter of courtesy and fairness. As a result, recommendations should be considered more promptly and communications are kept open until conditions are corrected. The auditor should anticipate conflicts and have

²⁰² Ibid., p. 26 – 27.

²⁰³ Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 612-613.

²⁰⁴ Ibid., p. 613-614.

²⁰⁵ Heeschen and Sawyer, p. 195-213.

²⁰⁶ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 378.

²⁰⁷ Ibid., p. 421.

supporting working papers ready as issues come up.²⁰⁸ The discussion should be documented in the working papers in case of a later dispute.²⁰⁹

Management Auditing – A Summation Of The Practice

“Just what is management auditing?” is explained in an article published in 1973 by Sawyer. In this article Sawyer explains his ten commandments of modern internal auditing (Table 11). It is a condensed summary of information found in The Practice. He actually refers to the book on the first page of the article. It is an interesting way to sum up modern internal auditing and promote the book at the same time.

The first three commandments concern objectives, controls, and standards. The internal auditor must understand these before writing the audit program.²¹⁰ Number four, “Know the population,” is about precisely defining the scope of the audit.²¹¹ This is important to the operational or managerial type of audit because it is not as structured as an audit of financial statements.

“Know the Facts” is a discussion on evidence. The auditor cannot accept what someone says as fact without checking it himself.²¹² The sixth and seventh commandments on cause and effect of a problem are important to reporting of a deficiency finding, and selling management on the need for corrective action.²¹³

²⁰⁸ Ibid., p. 425.

²⁰⁹ Ibid., p. 423.

²¹⁰ Sawyer, “Just what is management auditing?” The Internal Auditor (March/April 1973), p. 15-16.

²¹¹ Ibid., p. 17.

²¹² Ibid., p. 18.

²¹³ Ibid., p. 18-19.

Table 11

Sawyer's Ten Commandments

1. Know the objectives.
 2. Know the controls.
 3. Know the standards.
 4. Know the population.
 5. Know the facts.
 6. Know the causes.
 7. Know the effect.
 8. Know the people.
 9. Know how and when to communicate.
 10. Know the modern methods.
-

“Know people” is about dealing effectively with people. The commandment on communication is not only about the audit report, but communicating from the start of an audit, with the preliminary survey, communicating during the audit fieldwork, by discussing deficiencies with management to communicating at the end of the audit by reviewing the draft report with management.²¹⁴ “Know the Modern Methods”, the tenth commandment, is about using statistical sampling, EDP auditing, and quantitative methods.²¹⁵

Conclusion

The writings on the topic of the practice of internal auditing are analyzed for consistency. Any changes will be analyzed for causes in environmental factors or change taking place in the profession. The writings will be compared to a timeline of significant internal auditing professional publications and events to determine the originality of the ideas Sawyer included in his writings and and impact he may have had on changes taking place in the profession. Opinions of Sawyer’s associates, and internal audit leaders will be considered as well.

Consistencies and Inconsistencies

Sawyer’s writings are very consistent. His articles supplement the text of his book The Practice. No inconsistencies were found. There were changes in his writings that can be attributed to new sources of information, and developments such as the

²¹⁴ Ibid., p. 20.

²¹⁵ Ibid., p. 21.

issuance of professional standards, evolution of the profession, new technology and regulatory change.

One change that is noticeable in The Practice is in the addition of references to the work of others. The first edition had very few references. The information was mainly from Sawyer's own work experiences and from interviews with other internal auditors across the country. Sawyer retired shortly after the first edition. Subsequent editions were updated from interviews with practicing internal auditors, as well as other sources, mainly research studies, and publications of other authors. It would have been difficult for Sawyer to maintain close contact with working internal auditors as those he knew from his working years retired. An anonymous internal auditor who is a leader in the field had these comments: "For all Larry's strengths as a writer, speaker, motivator and an icon to the profession – and those would in no way be demeaned – he was not strong on first hand research. He did not continue in practice, neither did he go out and spend in depth time in the field with people who were in practice to see the day-to-day practice of internal auditing." With the fourth edition, input was obtained by surveying the IIA membership and acknowledgements were almost entirely IIA staff personnel. In later editions coauthors helped to update the material to keep it current.

In the early editions, Sawyer told readers how to bridge from an exclusively financial audit (accounting type) to more of an operational approach (efficiency and effectiveness). But in later editions this discussion was dropped. This is another example of the material changing to reflect the evolving profession as operational type auditing became accepted as a function of internal auditing. There was no longer a need to bridge from the traditional accounting type audit.

Another change is noted in reviewing Sawyer's writings on the audit program. In the first edition the discussion of the audit program is very general. It should include suggestions for what to test but omit detailed audit steps that would be in the working papers. With the second edition, Sawyer writes that the audit program should be very specific with detailed audit steps on what to test with positive instructions. He recommends standardized wording so there is no question as to what should be done. The audit program is to be approved in advance and all changes approved.

This change came about after the professional standards were issued which required a quality assurance program be adopted. A detailed audit program could help to document the supervision process for quality assurance purposes and to show compliance with the professional standards which require planning and supervision.

Advances in technology resulted in changes in the material such as computerized working papers, flowcharting and audit software, and continuous online monitoring of staff by off-site supervisors. Sawyer reported that computer programs had made the use of statistical sampling much easier. His concern was switched from internal auditors being able to use statistical methods, to them being able to understand the results obtained from the programs.

There were regulatory changes that had an impact. The Foreign Corrupt Practices Act required public companies have an adequate system of internal controls as it pertains to financial reporting and safeguarding of assets. Management looked to internal auditors to evaluate their system. Sawyer's writings reflected a caution in the area of internal controls, which had not been in previous editions. He warned against excessive, redundant, or expensive controls and controls becoming too restrictive. In specific

reference to the Foreign Corrupt Practices Act, he warned against making a legal compliance type evaluation, which he says is a decision for management and attorneys.

The fourth edition of The Practice has a noticeable change. Some of the unique style and personality of Sawyer has been replaced by a concise, factual, and well organized textbook type presentation. This change could simply be attributable to the input of the coauthors. Scheiner thought Sawyer's writing style to be very flowery.²¹⁶ As one person put it, "He was not a one-pager."²¹⁷ Dittenhofer said "His writing was beautiful. . . People might say that he was verbose in his writings because he wrote to paint a picture."²¹⁸ Perhaps the business environment has become more legalistic and with the information age, readers want information as concisely written as possible. It could also be that the profession had evolved to the point that Sawyer's homespun, folksy style was not appropriate. Often with the first edition, Sawyer wrote to convince internal auditors to use the modern methods. As the profession evolved to envelope modern methods, the convincing was no longer necessary. As an example of the change, two passages are presented below. The first is Sawyer's introduction to the audit program from an early edition. The second is from the fourth edition.

An audit program is like a road map. It shows the route the internal auditor intends to take. Like a good map, it should fit the needs of the traveler. An experienced traveler who has driven the road before needs little more than reminders of the highway routes, junctions, and turning points. An inexperienced traveler who is completely unfamiliar with the territory needs a detailed map which includes street names, alternate routes, and specific instructions. Internal auditors without audit programs like travelers without maps, may go in the wrong directions, miss the fastest highways, or get sidetracked on unpaved roads. They may finally

²¹⁶ Telephone interview with James H. Scheiner, Dean of the School of Business Administration, Stetson University, and coauthor, DeLand, Florida, December 12, 2003.

²¹⁷ Personal interview with Basil Pflumm, Institute of Internal Auditor staff member, Altamonte Springs, Florida, March 29, 2004.

²¹⁸ Dittenhofer interview.

reach their destination (most people do) but at excessive cost to themselves and their audit objectives, and nobody else could ever retrace their routes.²¹⁹

The internal audit program is a guide to the auditor and a compact with audit supervision that certain audit steps will be taken. The audit steps are designed (1) to gather audit evidence and (2) to permit internal auditors to express opinions on the efficiency, economy, and effectiveness of the activities to be reviewed. The program lists directions for the examination and evaluation of the information needed to meet audit objectives within the scope of the audit assignment.²²⁰

Evolution of the profession resulted in no longer needing to bridge from the old ways. For several reasons the professional writing style has changed in our culture. New technology has brought changes in how auditing is done and documented. Regulatory change had an impact on the internal auditing profession and can be seen in Sawyer's writing on internal control. These changes were all appropriate and necessary to keep Sawyer's writings relevant and useful to the practice of internal auditing over the years.

Comparison to the Internal Auditing Timeline

In reviewing the timeline contained in Appendix K, several items were noted that can be compared to the writings of Sawyer on the topic of the practice of internal auditing. The first book on internal auditing was written in 1941 by Victor Z. Brink. It is about the practice of internal auditing at that time.²²¹ In 1964, a book on operational auditing was written by Bradford Cadmus. Both of these books were written prior to Sawyer's writings. The standards for the professional practice of internal auditing came about after Sawyer's book The Practice. Comparison of Sawyer's writings to these

²¹⁹ Sawyer, The Practice of Modern Internal Auditing, p. 143.

²²⁰ Sawyer and Dittenhofer. p. 194.

²²¹ Victor Z. Brink, Internal Auditing, Its Nature and Function and Methods of Procedure, (New York, New York: The Ronald Press Company, 1941), p. iii.

materials will indicate the originality of his ideas and any influence he may have had on the development of the standards and the profession.

Brink's Internal Auditing

Brink's book was published in 1941, after conducting a survey of the internal audit practices of the largest companies in the United States. His book describes a financial audit to verify account balances and compliance with internal controls for balance sheet, and income statement accounts. There is a chapter for how to audit each major account, such as cash. Many of Sawyer's topics are not covered at all in Brink's book, such as the long-range plan and the preliminary survey. Instead of writing about how to audit specific accounts, Sawyer wrote about the audit process from start to finish.

In most cases, Brink has a few paragraphs on a topic that Sawyer wrote an entire chapter about. In the areas of fraud, working papers, findings, follow-up, and reporting, the ideas of Sawyer are consistent with Brink's. Sawyer made much more information available for readers. For example, they both wrote that internal auditors have some responsibility for prevention and detection of fraud but that they cannot insure against it. However Sawyer went further and provided a listing of fraud indicators.

Brink wrote that audit programs may refer to a schedule of audits to be done during a specified period (the long-range schedule), or actual procedures to be carried out. Brink says in most cases methods and procedures are set down in manuals.²²² He says a detailed audit program could destroy flexibility and make the audit mechanical. If procedures are to be specified for uniformity, then it is best to only include the minimum

²²² Ibid., p. 53-54.

procedures that would always be required to verify accounts. This would be the starting place to expand where needed in the judgment of the auditor.²²³

Sawyer also had concerns about the audit program limiting flexibility. He wrote about using creativity, and custom writing the audit program specifically for the objectives, controls, and risks of the activity. He included the purposes and contents. The audit program was not a new topic, but Sawyer added information that was lacking in Brink's work.

In regards to testing a sample, Brink says it is entirely possible that statistical methods could be applied, yet little use of these methods had been made.²²⁴ Quantitative methods are not mentioned in Brink's book at all. Sawyer included entire chapters on these topics to show internal auditors how to use the advanced methods.

Brink describes internal controls that relate to accounting and safeguarding of assets including segregation of duties, rotation of employees, required vacations, and bonding of employees.²²⁵ Sawyer had much to add in this area. His theories on relating internal control to management objectives and including operational controls are not present in Brink's writings at all.

Sawyer's writings add information that is lacking in Brink's book. Examples presented include responsibility for fraud, writing the audit program, sampling and quantitative methods. Sawyer's writings include some ideas about internal control that are not reflected in Brink's book.

²²³ Ibid., p. 98-99.

²²⁴ Ibid., p. 100.

²²⁵ Ibid., p. 76-84.

Cadmus' Operational Auditing Handbook

In the preface Cadmus states that operational auditing had been discussed since 1945. His purpose was to illustrate how to do it and inspire internal auditors to venture into the area. The book covers operational auditing of seven different areas, such as purchasing. The activities, potential problems, internal controls and suggested audit procedures are described for each area. However, no example reports were given. Similar to Brink, Cadmus wrote about detailed audits of particular areas and Sawyer wrote about the entire audit process without any detail pertaining to any one area. Cadmus may have only written a few paragraphs on a topic for which Sawyer wrote an entire chapter, such as the preliminary survey.

Cadmus calls the survey a familiarization. He tells readers to get background information and tour the operation. Learn about any problems management might be experiencing.²²⁶ In this area Sawyer writes the same basic ideas. He adds the importance of the initial meeting, procedures such as flowcharting and walk throughs, learning about risks, and the effects of good management.

Cadmus writes that management uses controls to attain their objectives. Analysis of controls involves review and evaluation of organization (who does what, who is responsible, and who has authority), policies and procedures (what is done and why), records and reports, and standards (operating criteria).²²⁷ The standards are evaluated for effectiveness in appraising the results of operations.²²⁸ Sawyer's writings are consistent with Cadmus except Sawyer uses a different framework for evaluation. He bases it

²²⁶ Bradford Cadmus, Operational Auditing Handbook (New York: Institute of Internal Auditors, 1964), p. 26.

²²⁷ *Ibid.*, p. 10-13.

²²⁸ *Ibid.*, p. 29.

around the functions of management: organization, planning, directing, and controlling. Sawyer discusses some problems with internal controls that Cadmus does not touch on, such as management overriding controls, and collusion. Sawyer tells readers what to do if management has not set standards by which to measure performance.

Cadmus writes that the auditor should have an unbiased attitude in evaluations and recommendations.²²⁹ Sawyer specifies that to be objective in future audits, the internal auditor should not design or install control systems.

Parts of audit programs are provided by Cadmus only as a guide for use in developing one's own. He says audit programs must be prepared to meet the needs of each activity audited.²³⁰ He writes that it shows what is being covered and how it is done without going into detail.²³¹ Sawyer wrote that this is best; however, there were times when a canned program could be used effectively. Sawyer advises being creative and researching for new ideas to keep the audit program fresh. He provided a detailed guide to writing the audit program including purpose, functions, benefits, contents and examples. Again Sawyer provides much more useful information in the subject area.

Cadmus advises internal auditors to discuss and settle minor deficiencies at the lower levels of management. All findings should be discussed informally as they arise during the audit. He says to never criticize without having supporting facts and having a constructive recommendation ready. Discuss the draft of the report with all operating supervisors affected. Get their agreement on recommendations and present them as joint recommendations in the report. If an agreement can not be reached, then present

²²⁹ Ibid., p. 24.

²³⁰ Ibid., p. 33.

²³¹ Ibid., p. 76.

operating management's views in the report.²³² The internal auditor may have to sell recommendations to management.²³³ All of these ideas were expressed by Sawyer as well. Sawyer gives additional information in the form of examples for both positive and negative findings. He discusses in detail the reporting of a negative finding with the criteria, facts, effect, cause, and recommendation.

Cadmus writes that the report should be professional, written for the manager, as short as possible, and stress the items that will improve operations.²³⁴ Charts and pictures can be used effectively in reports.²³⁵ Oral presentations can precede or supplement but should not take the place of the written report.²³⁶ Sawyer includes these ideas plus tips for better writing, the criteria for reports, the elements of a formal report, tips on conducting an oral report, review guidance, proofreading and editing tips and examples.

Sawyer's writings that were not found in the books written by Cadmus and Brink include the framework for evaluation of internal control based on the functions of management, what to do when no standards have been set, the idea that internal auditors should not design or install controls, and the consideration of risks and the effects of good management in planning the audit. Perhaps these were new ideas that Sawyer brought to the profession. Sawyer acknowledged contributions from many internal auditors in the field and The Practice was to be about how modern internal auditing was actually being practiced. It could very well be that these ideas had been developed by others and were recorded by Sawyer.

²³² Ibid., p. 31.

²³³ Ibid., p. 465-466.

²³⁴ Ibid., p. 32.

²³⁵ Ibid., p. 464.

²³⁶ Ibid., p. 408.

Standards for the Professional Practice of Internal Auditing

The Standards for the Professional Practice of Internal Auditing (the standards) were adopted in June of 1978.²³⁷ They are reproduced in the second edition of The Practice in Appendix A. References to The Practice in this section are not citations of Sawyer's writings, but citations of the text of the standards found in that appendix.

The professional standards specify that the audit planning process should be documented and should include the scope and objectives, a budget, a study of background information, communication with staff and auditee, and an onsite survey. The survey is for familiarization with the activities and controls, to identify areas needing emphasis, and to get the auditee's input. The final step in planning is to write the audit program and get it approved.²³⁸ Sawyer included all of these planning steps in his writings before the standards were issued. However, Cadmus also included these planning steps in his writings with the exception of the risk analysis. Risk analysis is an area where Sawyer's writings may have had an impact on the standards.

The standards require the preparation of a work schedule. It has the activities to audit, when it is planned, and the estimated time it will require. In creating the schedule, the internal auditor considers the time since the last audit and the results of the last audit, the risk involved, management requests, major changes that have taken place in the organization, areas where benefits are likely, and the internal audit staff capabilities. The work schedule should be flexible to allow for unanticipated demands.²³⁹ Sawyer includes all of these points in his book except for the considerations of major changes, areas with

²³⁷ Sawyer, The Practice of Modern Internal Auditing, p. 39.

²³⁸ *Ibid.*, p. 822.

²³⁹ *Ibid.*, p. 825.

expected benefits, and the staff capabilities. It seems that Sawyer's writings preceded the standards in preparation of a work schedule for the most part.

Supervision of the internal audit staff from planning to conclusion is required by the standards. The audit program and any changes to it must be approved. Evidence of the supervisory process should be retained.²⁴⁰ Small departments may be directed and controlled through daily supervision and written memorandums of audit policies and procedures. The larger departments will need formal written policy and procedure manuals.²⁴¹ All of the requirements pertaining to supervision are included in Sawyer's writings except for changes in the audit program requiring approval and the allowance made for smaller departments in the requirement for audit manuals. Almost all of the requirements of the standards in the area of supervision were included in Sawyer's writings.

The standards require that an audit include an evaluation of internal controls. The functions of an internal control system and how to evaluate it are consistent with Sawyer's writings. However, there were publications prior to Sawyer's that reflected the same ideas. Sawyer's contribution in the area was to link controls to the four management functions. This was not incorporated into the standards. Therefore, it is doubtful that Sawyer's writings on internal control had an impact on the standards.

The standards specify that internal auditors are not to design or install procedures. They can recommend standards of control and review procedures before implementation.²⁴² Sawyer cautioned readers against insisting upon a particular correction or improvement as the auditor might have to audit his or her own work in the

²⁴⁰ Ibid., p. 816-817.

²⁴¹ Ibid., p. 825.

²⁴² Ibid., p. 815.

future. Neither Brink nor Cadmus wrote about restricting internal auditor design or installation of controls. Sawyer's writings preceded the standards and could have been the source for the restriction.

Sawyer's writings on the topics of risk analysis in planning, preparation of an audit work schedule, supervision of audit work, and internal auditors auditing their own work, preceded the inclusion of the topics in the professional auditing standards. These topics were not covered in the writings of Brink or Cadmus. This indicates that Sawyer's writings could have been the source for inclusion of these topics in the standards. This is not unlikely as Sawyer served on the IIA committee that wrote the standards.²⁴³

It can be said that the topics were not new to the profession as Sawyer took the information from actual practicing internal auditors and his own experiences. However, Sawyer's treatment was new in combining all available information on a topic for a useful reference. In the next section comments from others validate the conclusion that Sawyer's writings have had a lasting impact.

Sawyer's Contribution to the Practice of Internal Auditing

The most significant work of Sawyer was his book The Practice. A recent president of the IIA, William G. Bishop III, said the textbook was Larry's lasting contribution to the profession.²⁴⁴ His purpose in writing it was to develop a practical "how to do it" guide on the basics of modern internal auditing. It was meant to be a guide to practice, and a guide to teach the practice of internal auditing. It was not intended to be ground breaking research to develop new ideas. However, Sawyer's work

²⁴³ Lawrence B. Sawyer, "A Mini-history of The Standards," Internal Auditor (June 1988), p. 25.

²⁴⁴ William G. Bishop III, IIA President, "In Memoriam," Sawyer's Internal Auditing, Fifth Edition, unnumbered page.

did represent what was new in the practice. D. Eugene Shaeffer, former IIA Director of Education, said Sawyer got input from auditors that were employed by corporations at the forefront and doing new things in internal auditing.²⁴⁵

Brink referred to it as substantive and enduring and called it “a monumental how-to guide to the practice of internal auditing.”²⁴⁶ This book earned Sawyer the title of Father of Modern Internal Auditing. Brink also recognized the book’s importance in the classroom. He said that the IIA has struggled to establish internal auditing courses in the college curricula. One problem had been inadequate texts and teaching materials. “However, Sawyer’s books have been important developments providing better support for the desired courses.” Basil Pflumm, a former IIA administrator, said that Sawyer’s book served as a good contribution because it opened the way to getting courses established in the colleges.²⁴⁷ Some professors thought the book was too practitioner oriented. Academic coauthors were added over the years to give the book more balance.²⁴⁸

Frederic Mints, an academician, said “It is a veritable cornucopia of information about this rapidly developing profession. I firmly believe this text will become and continue to be the ‘master work’ in this field for many years.” This prediction may have come true as in 1991, the book was ranked number one in a survey of internal auditors about books that have had a significant impact on the practice of internal auditing.²⁴⁹ In

²⁴⁵ Personal interview with D. Eugene Shaeffer, former IIA Director of Education, Altamonte Springs, Florida, March 30, 2004.

²⁴⁶ Brink, p. 69.

²⁴⁷ Personal interview with C. N. Inman, past president of the Institute of Internal Auditors, Altamonte Spring, Florida, March 29, 2004.

²⁴⁸ Dale L. Flesher, *The Institute of Internal Auditors: 50 Years of Progress Through Sharing* (Altamonte Springs, Florida: The Institute of Internal Auditors, 1991), p. 107.

²⁴⁹ Dennis L. Kimmell, Guardarshan S. Gill, and Darlene K. Ahnberg, “Internal Auditors’ Favorite Books,” *Internal Auditor* (June 1991), p. 58.

2000, it was the number one textbook in use in colleges and universities throughout the world.²⁵⁰

Scheiner referred to the book as the leading reference guide.²⁵¹ Pflumm, who worked with Sawyer on the book, has said,

If I were sent off to some remote place and asked to run an internal audit shop and given one resource I would take Sawyer's book. It's the most complete, comprehensive, arms around the whole profession, thing that is out there. And still is today. It's got everything in there from how to set up an audit office, skills you need, how to develop the staff, it is very consolidated.²⁵²

An anonymous internal auditor who is a leader in the field had these comments:

. . . Larry Sawyer provided the profession a keystone publication that struck a cord that no other ever did. I am looking across my office at a bookshelf full of texts written by people I respect and admire as much as Larry who wrote manuals on internal auditing that did not catch fire like his did. Maybe the sponsorship by the IIA had a lot to do with it but the IIA also sold the others. Certainly the fact that Larry published in other forms like the Grandfather series and innumerable articles and monographs had to buoy the sales of the book. The constant speaking engagements had to help as well. Still and all there is just something about the Sawyer style that made it an easy piece for a novice to pick up and read; an easy reference to return to when preparing for the basics in the CIA exam. Last and maybe most compelling, it was an easy source for CIA exam question writers to go to cite as a reference for a myriad of subject areas when they were constructing and submitting questions for the exam.

Overall Pflumm said that he thought the book The Practice was Sawyer's most outstanding contribution to the profession. He said,

Certainly in my time period, he was never a player in the governance structure, that was not what he did, he was very content to be the publisher of the Sawyer's, that really was his claim to fame, what he owned, it was

²⁵⁰ Howard Johnson, IIA Chairman of the Board, Unpublished Opening Remarks, International Conference 2000, June 12, 2000.

²⁵¹ Scheiner interview.

²⁵² Pflumm interview.

his legacy. His openness to the evolution of the profession and the consolidation of that information in one summary place. I think that may be his primary contribution.²⁵³

²⁵³ Pflumm interview.

VOLUME 2

CHAPTER VI

THE POLITICS OF INTERNAL AUDITING

Chapter six will present the analysis of articles and books in the area of politics. Sawyer's ideas on human relations were included in almost everything he published including the books Elements of Management-Oriented Auditing and The Practice of Modern Internal Auditing: Appraising Operations for Management, (The Practice).

The Elements of Management-Oriented Auditing was published in 1983. It followed the second edition of The Practice and is a summation of much of the information contained therein. The chapter entitled "Dealing with People" is a condensed version of the information found in The Practice second edition, that was published in 1981.

Several articles focused exclusively on getting along with people such as "The Politics of Internal Auditing", "The Human Side of Internal Auditing", "The Leadership Side of Internal Auditing," and "Janus or The Internal Auditor's Dilemma". Ideas expressed include projecting the right image in personal interaction and communication, the conflicting responsibilities of being both a partner with management and watchdog over management, use of the participative audit method, and the importance of using corporate culture, the hidden organization, and power. The three sources of political power that can affect the internal audit function are discussed. The overall theme of Sawyer's writings on interpersonal skills is understanding and empathy. This means

trying to see things from the auditee's point of view. If internal auditors are genuine, it will come across in their communications, and the result will be increased cooperation.

Sawyer's writings in the area of human relations are summarized and compared for consistency. Any inconsistencies are analyzed for environmental causes. The topics are compared to an internal auditing timeline (Appendix K) to determine the authenticity of Sawyer's writings. This timeline was borrowed from the Institute of Internal Auditors (IIA) and modified as needed with information from Dale Flesher's history of internal auditors, The Institute of Internal Auditors, 60 Years of Progress through Sharing. The chapter concludes with an assessment of the impact of Sawyer's ideas about politics on the practice of internal auditing. The material is summarized in the following categories: why politics is important, why people don't like the internal auditor, what the internal auditor can do, conflicting responsibilities of internal auditing, and how the internal auditor can use politics.

Why Politics Is Important

“Work in an organization is a social activity and hence essentially political. Work is always political so long as people, including internal auditors, need others to help them accomplish their goals.”¹ “The modern internal auditor, much more than the financial auditor, works with people. . . He needs cooperation from the auditee or his audit may well be frustrated by incomplete information, inaccurate data, or warped perspectives.”² “We audit in unfamiliar areas. We need help to learn the systems, the jargon, and the

¹ Lawrence B. Sawyer, “The Political Side of Internal Auditing,” Internal Auditing (February 1992), p. 30.

² Lawrence B. Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management (New York: Institute of Internal Auditors, 1973), p. 44.

people.”³ “Internal auditors must develop and maintain good relations with auditees to gain information and to ensure corrective action on audit findings.”⁴ “He must be equipped with some understanding of people, of management styles, of problems in communication and of the techniques of listening and obtaining information.”⁵

Sawyer describes an IIA Research Study conducted by Frederic E. Mints in 1972. It offers some proof that the internal auditor’s success depends more on the ability to deal with people than their technical ability. Similar audits were conducted by two teams. One team of auditors was instructed to do their audit with a cold, impersonal, and superior attitude.⁶ The auditees complained about these auditors saying they were obnoxious, domineering, and devious and not to be trusted.⁷ The corrective action recommended by the auditors had not been implemented eight months after the audit. The other team of auditors was instructed to show empathy and consideration for the auditees. The result was that the subjects of the audit became involved in carrying out corrective action right away.⁸ The auditees praised their auditors as sincere, positive, helpful, and professional.⁹ An auditor that reviewed the work said that both audits were technically good and if anything the work done by the reserved auditors was superior in some respects. Sawyer concluded from this research that

There seems little doubt that intelligent, imaginative internal audit work in and of itself is not enough to ensure improvements in operations. The

³ Lawrence B. Sawyer, Elements of Management-Oriented Auditing (Altamonte Springs, FL: Institute of Internal Auditors, 1983), p. 81.

⁴ Lawrence B. Sawyer, The Practice of Modern Internal Auditing (Altamonte Springs, FL: Institute of Internal Auditors, 1981), p. 747.

⁵ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 41.

⁶ Sawyer, The Practice of Modern Internal Auditing, p. 753.

⁷ Sawyer, Elements of Management-Oriented Auditing, p. 83.

⁸ Sawyer, The Practice of Modern Internal Auditing, p. 753.

⁹ Sawyer, Elements of Management-Oriented Auditing, p. 83.

auditee must want to implement the audit recommendations. So the auditor's style may be as important as his or her technical competence.¹⁰

Why People Do not Like the Internal Auditor

Sawyer relates the following description of an internal auditor. Sawyer says Elbert Hubbard has been credited with the description. He shared it with readers because he thinks a great many people share the view.

The typical auditor is a man past middle age, spare, wrinkled, intelligent, cold, passive, noncommittal, with eyes like codfish, polite in contact, but at the same time unresponsive, calm, and as damnably composed as a concrete post or a plaster-of-paris cast; a human petrification with a heart of feldspar and without charm, minus bowels, passion, or a sense of humor. Happily, they never reproduce; and all of them finally go to Hell.¹¹

This seems harsh, but if that is how some people feel, then indeed internal auditors need help in the area of interpersonal skills. Sawyer gets some insight into the problem from a study on conflicts between staff and line management by Melville Dalton. This study shows that there are differences between people that can account for some negative feelings between internal auditors (staff) and line managers. These differences are in age, education, dress, and level to which the people report. More importantly he says staff people are specialists and may think they have the only answers. They tend to discount the difficulties that line people face. The last point really hits home with internal auditors: they feel that they must point out defects in order to prove

¹⁰ Sawyer, The Practice of Modern Internal Auditing, p. 753.

¹¹ Sawyer, Elements of Management-Oriented Auditing, p. 81.

themselves to upper management.¹² Sawyer says that internal auditors and auditees may have conflicting goals that create fear and distrust.¹³

Sawyer also relates a study by Chris Argyris on the topic of conflict between budget staff people and operating line people to internal auditing. Conflicts can be caused by a fear of change and the fear of having their weaknesses exposed. For the internal auditor to do his job, he must find where someone else is not doing theirs well. Superiors might wonder why the improvements or inefficiencies were not thought of or found out by the manager. If that is not bad enough, the manager's inadequacies are recorded in a report, and circulated around for all of top management to see.¹⁴

Sawyer says that people do not like to be controlled. Internal audit is a form of control and this has negative connotations. He refers to a study of internal control that revealed a possibility for the control system to result in the negative behavior that it was designed to prevent in the first place. He says employees may feel threatened by internal auditors because their findings could result in punishment or loss of personal goals.¹⁵

Part of the research conducted by Mints was a survey of auditees about their responses to the internal auditors. Sawyer relates some of the problems revealed by the survey results as fear of criticism, fear of change, fear of punitive action, overly critical reporting, an abrasive, callous attitude in the internal auditor, and fear of the mystery surrounding the audit. There is sometimes a feeling that the internal auditor will gain from reporting more deficiencies. Critical reporting that concentrates only on the negative points is thought to be unfair. The attitude of the internal auditor is often cold,

¹² Sawyer, The Practice of Modern Internal Auditing, p. 750.

¹³ Sawyer, "The Human Side of Internal Auditing," Internal Auditor (August 1988), p. 42.

¹³ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 45.

¹⁴ Sawyer, The Practice of Modern Internal Auditing, p. 750.

¹⁵ Ibid., p. 751.

insensitive, smug, superior, and lacks understanding. Too often internal auditors focus on the insignificant; they question auditees like a prosecutor; and are more concerned for finding errors than finding ways to improve. As a result people feel threatened.¹⁶

Communications barriers can result in incomplete or inaccurate information and invalid perceptions. The internal auditor relies on the cooperation of auditee personnel for an effective audit. Fear of the auditor often blocks effective communication. This is because the auditor is a critic who threatens people's security. The auditor can adversely affect their status, their well-being, and even their jobs.¹⁷ Internal auditors must do their jobs, but there is a better way to go about it.¹⁸

Instead of the description of the internal auditor at the beginning of the segment, Sawyer would like everyone to have the following ideas. With application of Sawyer's ideas about improving interpersonal skills presented in the next segment, perhaps it is possible (even for a female internal auditor).

The typical auditor is a beautiful man, intelligent, warm and considerate with an ability to put himself in the other man's shoes and understand his problems; polite in contact and helpful, but at the same time objective, calm and as composed in crisis as Stravinsky on opening night; a human person with a heart of gold and with the charm of a friendly poodle, plus brains, business foresight and a sense of humor. Happily they train others in their image and all of them finally go to Heaven.¹⁹

What the Internal Auditor Can Do

Many internal auditors contribute to these perceptions through their failure to understand why people act as they do in the presence of an auditor. Nearly all conscious behavior is motivated or caused. Internal auditors who have no understanding of motivational theory will cause behavior

¹⁶ Ibid.

¹⁷ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 45.

¹⁸ Sawyer, The Practice of Modern Internal Auditing, p. 751.

¹⁹ Lawrence B. Sawyer, The Manager and the Modern Internal Auditor: A Problem-Solving Partnership. (New York, New York: AMACOM, American Management Association, 1979), p. 84.

which places roadblocks in front of their audit objectives. People receive motivation from their underlying needs and act in a way to satisfy those needs. They react negatively and hostilely when those needs are threatened.²⁰

If internal auditors cause the problems with negative and hostile action as Sawyer says in the above paragraph, then there must be something the internal auditors can do about it. Sawyer describes ways to more effectively communicate and how to have a participative audit.

Communication Skills

In The Practice Sawyer describes some steps to be taken to open up the channels of communication. Communication includes listening to and interviewing the auditee and conducting effective presentations. It also includes understanding the speaker's attitude and characteristics as well as conflict resolution tactics.

The Art of Listening

The auditor must be a good listener. In operational auditing, people are as important as documents and records. There are distractions, both external and internal, that result in the average person remembering only about 50% of what is said. The listener's mind may wander because of personal problems or inability of the speaker to hold his or her attention. It could be that listeners are thinking about what they like or do not like about the speaker. The listener may have an emotional response that blocks them hearing anything else or may be thinking of arguments, examples, or what they can

²⁰ Ibid.

contribute to the conversation instead of really listening. The internal auditor may be trying too hard to get all the facts or write it all down and miss the main point.²¹

Sawyer gives some pointers for developing good listening habits from an article written by Ralph G. Nichols. Because our minds think faster than people talk, we have to use discipline to keep our minds on what is being said. One way is to anticipate what the speaker will say next.²² Ask for evidence to support the speaker's points. The listener can mentally summarize what has been said. The listener should keep eye contact, and observe expressions, tone, and posture. Sometimes the body language is more important than what is said.²³

Interviewing

When interviewing, Sawyer advises trying to make the other person feel important. He suggests finding something in common to start out with an amiable atmosphere. The auditor will be more likely to get true participation. He or she will know more about the operation and a team approach to improvements will result in a more effective audit.²⁴ The internal auditor can avoid hostility by picking a good time for interviews, not when the auditee is angry, tired, or distracted.²⁵

Sawyer recommends being prepared, professional, confident, and sensitive to reactions of people, putting people at ease, and stopping the interview when the information needed is obtained. He quotes an article that gives do's and don'ts for effective interviewing that includes the opening, conducting, closing, and recording.

²¹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 49.

²² Ibid., p. 49.

²³ Ibid., p. 50.

²⁴ Sawyer, The Practice of Modern Internal Auditing, p. 756.

²⁵ Ibid., p. 758.

Some examples are: “Don’t react negatively to new ideas” and “Do stimulate the interviewee to ask questions”.²⁶

“The Human Side of Internal Auditing” was an article written by Sawyer and published in 1988. Psychological experiments have shown that it is human nature to perceive people who are liked to be better than they really are, and those who are not liked to be worse than they actually are.²⁷ Perceptions can create bias that interferes with our judgment and with effective communication. People have preconceived perceptions. These perceptions filter what they see and hear and can result in a self-fulfilling prophecy. Internal auditors must be professionals and keep an objective attitude to be unbiased in their perceptions of auditees. Internal auditors must work extra hard at the initial meeting to change any negative perceptions that could stand in the way of an effective audit.²⁸

Effective Presentations

This section pertains to meetings when the internal auditor is in charge and doing most of the talking. Some of the ideas could pertain to any meeting or interview situation, such as coming well prepared. The authors write that there should be an agenda and visual aids. The presentation should be rehearsed. It should be scheduled for the best time possible, preferably not before or after lunch for example.²⁹

The speaker must be credible. Certification and status within the organization are important but personal characteristics such as dress and mannerisms are just as important. The atmosphere is set by the posture, tone, and expressions of the speaker and it should

²⁶ Ibid., p. 121-122.

²⁷ Sawyer, “The Human Side of Internal Auditing,” p. 40.

²⁸ Ibid., p. 41.

²⁹ Lawrence B. Sawyer & Mortimer A. Dittenhofer, Sawyer’s Internal Auditing: The Practice of Modern Internal Auditing (Altamonte Springs, Florida: Institute of Internal Auditors, 1996), p. 1253.

be relaxed and confident.³⁰ The delivery should be professional, with effective gestures, eye contact, tone of voice, and appropriate dress.³¹

A good oral presentation should not be too long but include the right amount of detail. The presentation should have a logical order that is understandable. Good organization requires some background information and a conclusion that is well supported. Present favorable results first, then the unfavorable, for balance and fairness. Key points should be emphasized. The presentation should be polished with good grammar and neatness.³²

Comments should be invited. The speaker should really listen to participants' comments. Use a problem solving teamwork approach. This means solutions should not be forced upon the participants; let them help to come up with solutions. Ask if there are any questions to be sure key points were understood.³³

Attitude and Other Qualities

Having the right attitude will show in the auditor's demeanor and communications. Sawyer says auditors should say to themselves, "I am not a cop. I am not an investigator. I am not an efficiency expert. I am an auditor. And I am a guest in their house. I shall be courteous. I shall treat people with respect. And I shall regard my examination as a community effort, for the greater good of the department and the company."³⁴

Sawyer writes that being friendly, courteous, and open will help to establish rapport. He advises the auditor to explain at the beginning that the object of an audit is

³⁰ Ibid., p. 1253.

³¹ Ibid., p. 1255.

³² Ibid., p. 1254-1256.

³³ Ibid.

³⁴ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 46.

not to find errors but to find things that get in the way of effective functioning of the activity and the manager achieving his or her goals.³⁵ The auditee may be defensive and the auditor must allay those fears. The auditor must never sound accusing or judgmental. The auditee will be able to sense a judgmental attitude. The auditor should show empathy to avoid the impression of being cold, detached, or neutral like an inquisitor.³⁶ The empathy must be genuine or it will come across as manipulation to the auditee. The auditor must not show an attitude of superiority. Instead he or she should offer a problem-solving partnership that will let others contribute. This will build their self-esteem. For the partnership to work, Sawyer writes the auditor must have an open-minded attitude, not dogmatic and certain of the way things should be.³⁷

Giving recognition is a characteristic emphasized by the authors of the fourth edition. The basis for the discussion is Maslow's hierarchy of needs. People need to believe that their work is meaningful. They have a need for security and recognition. Helping people to meet their needs can result in the auditee bringing problems to the attention of the internal auditor, cooperating fully, and implementing corrective action. One way for internal auditors to give recognition is to state in the report that the audit was successful because of the cooperation and action of the auditee.³⁸

Perception is a characteristic that is useful in communications. Sawyer writes that internal auditors need to be good at reading people, which sometimes involves perceiving and dealing with someone's ego. This is using instincts, insights, and perceptions to get

³⁵ Ibid.

³⁶ Ibid., p. 47.

³⁷ Ibid., p. 48.

³⁸ Sawyer and Dittenhofer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 1234.

results with the least resistance.³⁹ Insight can help the internal auditor predict how someone will react.⁴⁰

In The Practice, Sawyer briefly introduces the four basic management styles. These are the autocratic, custodial, supportive, and collegial styles. Being able to identify the styles will help the internal auditor know what to expect. Sawyer explains how they can affect the employees working under the manager and how the auditor should deal with the manager exhibiting a particular style.⁴¹

Sawyer wrote an article in 1990 on the leadership qualities that are necessary for internal auditors. Many of the same qualities that make good leaders also make good internal auditors.⁴² These include communication skills. The internal auditor must be a good listener. Auditors must speak and write forcefully to be convincing and persuasive.⁴³ Internal auditors must be emotionally mature. This means objective, dependable, and persistent.⁴⁴ They have empathy and understanding for the problems of others. Internal auditors should have self-knowledge. This means being aware of how what one does and says affects others.⁴⁵ Responsiveness is a good quality. Internal auditors should ask management for input and what problems they may be having and respond appropriately.⁴⁶ Communication is the key to good relations with an open sharing of plans and results as the audit progresses. Balanced communication has

³⁹ Sawyer, "The Political Side of Internal Auditing," p. 28.

⁴⁰ Ibid., p. 30.

⁴¹ Ibid., p. 41-44.

⁴² Lawrence B. Sawyer, "The Leadership Side of Internal Auditing," Internal Auditor (August 1990), p. 16.

⁴³ Ibid., p. 20.

⁴⁴ Ibid., p. 18.

⁴⁵ Ibid., p. 22.

⁴⁶ Ibid., p. 23.

positive comments as well as negative. The tone of communications should not be critical but focus on improvement.⁴⁷

Conflict Resolution

If a conflict does occur, Sawyer gives some simple rules to help reach an agreement. Have good manners and don't respond with "you are wrong". Use non-personal phrases that do not start with "You". Rather than "You haven't thought of . . ." it is better to say "There might be a possibility that . . ." When there is a disagreement, step back until some point can be agreed upon and begin the discussion again at that point.⁴⁸ Don't back anyone up into a corner (including one's self). This means putting them in a position where backing out gracefully would be difficult. Don't make it seem as if you have won the argument by making statements like "Now you are seeing it my way." Allow people to air their views or to explain. It may be that they need to justify themselves. Sawyer writes that it is best to let them talk themselves out.⁴⁹ Sawyer says for internal auditors to put themselves in the other person's place to understand what they want. Then make them see that what they want is really the same as what you want. If all efforts fail, then the internal auditors must take their case to a higher level of management.⁵⁰

⁴⁷ Ibid., p. 24.

⁴⁸ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 426.

⁴⁹ Ibid., p. 427.

⁵⁰ Sawyer, The Practice of Modern Internal Auditing, p. 758.

The Participative Audit

Sawyer shows how to apply good interpersonal and communication skills throughout the audit process. This begins with getting input with a long-range audit schedule, and includes the preliminary survey, discussion of findings, discussion of the draft report, and getting feedback. Letting the auditee know what to expect will establish trust and rapport. Communicate what is going on with the audit before, during, and after the examination.⁵¹ This is a participative audit.

Traditional versus Participative

One source of conflict is the fear of the unknown. Open communication before the examination is the key to overcoming this fear.⁵² A brochure can be used to explain the audit process to personnel. Highlight positive results and benefits of an audit.⁵³ Participation is also important to acceptance. This requires the internal auditor have the attitude of a consultant rather than a policeman or spy. Sawyer gives seven examples of the difference between a traditional and the participative audit approach. These will be discussed in detail in the following sections. The general idea is to help management improve but give the credit to management and to maintain open communications. "People are willing to assist others when they feel they will share in the benefits, when they are all working toward the same goal. . . The fear, the distrust, the mystery are all dissipated when auditor and auditee work together in a spirit of cooperation and self-

⁵¹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 45.

⁵² Ibid.

⁵³ Sawyer, The Practice of Modern Internal Auditing, p. 756.

evaluation.”⁵⁴ The internal auditor must still be alert for fraud. If fraud is suspected, then the approach must be switched to the traditional.⁵⁵

The Long-Range Audit Schedule

Getting higher-level management support of the internal audit function may be a simple matter of getting their participation. Sawyer advises having them review the long-range schedule and getting their input on audit coverage. Ask if they have any problems that could be addressed by internal audit. Getting their acceptance of the audit schedule will result in increased commitment to it and increased support of the internal audit function.⁵⁶

Sawyer wrote about getting management involved at all levels by having them review the long-range schedule. As one level approves the schedule, take it to the next lower level. Their involvement will result in their blessing. The internal auditors will have a better understanding of management’s problems and needs.⁵⁷

Preliminary Survey and Audit Program

Sawyer writes that the initial meeting for the preliminary survey is important to the relationship with the operating manager. This meeting will set the tone for the entire audit. The internal auditor should be open and candid about what to expect during the audit. Treat the manager fairly and objectively. At this stage the auditor is just getting information. He or she wants to establish a collegial participative relationship that will foster cooperation. Ask for another meeting after the audit program has been prepared to

⁵⁴ Ibid., p. 760.

⁵⁵ Ibid., p. 754-755.

⁵⁶ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 80.

⁵⁷ Ibid., p. 95.

discuss plans and what needs to be accomplished with the audit.⁵⁸ Scheduling the meetings in advance is a courtesy.⁵⁹ Avoid surprise audits.⁶⁰ The manager must agree on the standards by which the activity will be evaluated.⁶¹

The auditees will be more likely to participate in identification of problems and in taking corrective action if there are no mysteries concerning the audit program. The audit program should be discussed including the objectives, methods, and reasoning.⁶² Ask for suggestions. The goals for a participative audit should be to help management reduce cost and improve efficiency and help management improve controls and procedures.⁶³ The preliminary survey is the time to communicate goals for the audit. Let the auditee see that the internal auditor's goals are their goals. Conflicting goals result in fear and distrust but common goals result in greater cooperation.⁶⁴

Discussion of Findings

Sawyer writes that when there are findings or problems, they should be discussed with the auditee immediately. This may evoke defensive behavior because it is perceived as criticism.⁶⁵ Getting the auditees' help in early correction is advised because the auditor can then report that management has corrected the problem. This lets management save face. It lets them feel that they are in charge and in control.⁶⁶

Research has been done on people's fear and resistance to change. Sawyer and Dittenhofer relate this research to internal auditing. The reasons include the concern that

⁵⁸ Ibid., p. 134.

⁵⁹ Sawyer, The Practice of Modern Internal Auditing, p. 120.

⁶⁰ Ibid., p. 756.

⁶¹ Ibid., p. 755.

⁶² Sawyer, "The Human Side of Internal Auditing," p. 44.

⁶³ Ibid.

⁶⁴ Ibid., p. 42.

⁶⁵ Ibid., p. 43.

⁶⁶ Ibid., p. 44.

there will be adverse effects because of change, the confusion and disruption to normal routines because of the change, and a change implies the current way was not good enough. Communication can neutralize these fears. The authors recommend explaining the benefits and any risks of complying, the specific changes needed and how they will be accomplished, and that change is evolutionary, not revolutionary, and how conditions will improve.⁶⁷

The authors write that change often involves a negative impact on someone's ego. They recommend using the participative style. Bring management into the decision so that it is their change.⁶⁸ Sawyer's problem-solving team approach is described as follows:

People tend to gag on what is thrust down their throats. "You must!" is sure to raise hackles. The very same course of action that people would espouse if they thought of it themselves may be rejected, or at least resented, if recommended by another. The fact that a defect is valid and that the audit recommendation to correct it is logical and reasonable does not guarantee its acceptance by the auditee. The built-in resentment of an auditee being appraised and criticized may explode in the face of the auditor's statement: "Here's what I think you should do." Auditees convinced against their will are of the same opinion still. Such is the nature of human beings. Resentment can cause auditees to work harder to scuttle a good recommendation than to carry it out.⁶⁹

Discussion of the Draft Report

Sawyer explains in The Practice that this should be an open and courteous meeting as all findings should have already been discussed during the audit. There should be no surprises. Being sensitive to the feelings of others can take away the harshness of such confrontations. The auditor should be in charge of the meeting and set the stage for a pleasant atmosphere. There should be a feeling of working together to

⁶⁷ Sawyer, The Practice of Modern Internal Auditing, p. 830.

⁶⁸ Sawyer and Dittenhofer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 1233.

⁶⁹ Sawyer, The Practice of Modern Internal Auditing, p. 234.

correct unfortunate conditions. Acknowledge the difficulties management has in carrying out their duties and the cooperation received during the audit.⁷⁰ Give management credit for improvements made or deficiencies already corrected or in process as well as plans for what still needs to be done. The auditor should express willingness to discuss any matter in detail and answer any questions.⁷¹

Serious disagreements are bound to occur. Sawyer recommends anticipating conflicts and having support ready. A copy of the report annotated with working paper references could be useful. If the internal auditor can answer promptly and confidently with supporting working papers, many questions will diminish.⁷²

If an agreement cannot be reached it is common courtesy to include the auditee's views in the audit report. Ask them to check the draft to make sure that they have not been misquoted.⁷³

All findings should be discussed before reporting. Only significant matters should be reported. Sawyer recommends giving credit for outstanding achievements in the report. A balanced report contains positive assessment as well as deficiencies.⁷⁴

Making Compromises

The report could get the line management into trouble with their superiors. They may react in a defensive manner. Sawyer writes that a simple word substitution could make them feel more comfortable. The auditor could have made a mistake or it could be that there is more information to be gained. Maybe an item is not as important as the internal auditor thought. Accepting some changes to the report will allow the auditor to

⁷⁰ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 424.

⁷¹ Ibid., p. 425.

⁷² Ibid., p. 425.

⁷³ Ibid., p. 427.

⁷⁴ Sawyer, The Practice of Modern Internal Auditing, p. 756.

keep a reputation for fairness. The auditor should accommodate management's wishes as long as it does not change the meaning of what is said. The facts cannot be changed and the internal auditor cannot ignore anything significant. Sawyer stresses that the audit opinion is the auditor's; it cannot be delegated and is not to be negotiated.⁷⁵ In the fourth edition, the authors point out that sometimes compromise can resolve conflicts and result in the greater good of the organization.

Feedback

A study showed benefits that could be gained from obtaining feedback from auditees after the audit is completed. This can improve relations as the participative atmosphere is enhanced. It is a way to judge the performance of internal auditors and can highlight areas that need improvement. It shows a concern for the feelings of the auditee and can increase the feeling of being on the same team reducing conflicts. Auditees may identify with the internal auditor to a greater degree. An example form is provided that includes knowledge, professionalism, responsiveness, interpersonal skills, and positive attitude among other characteristics.⁷⁶

To sum it up, Sawyer says to remember six things to help establish and maintain good relations. These are (1) have understanding and empathy, (2) don't blame the auditee, (3) educate the auditee on the audit process, (4) use positive reporting, (5) get management support, and (6) make it a problem-solving partnership.⁷⁷

⁷⁵ Ibid.

⁷⁶ Sawyer and Dittenhofer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 1240-1241.

⁷⁷ Sawyer, "The Human Side of Internal Auditing," p. 44.

Conflicting Responsibilities Of Internal Auditing

In 1980, Sawyer published his first journal article on the topic of the politics involved in internal auditing. “Janus or The Internal Auditor’s Dilemma” is about the conflicting responsibilities faced by internal auditors. Janus is a mythological Roman god that has two faces looking opposite directions. January comes from this character because the month looks back at the old year and forward to the New Year. Internal auditors have a duty to serve management, but also a duty to the board of directors to watch management. There is a duty to work with line management to improve operations, yet deficiencies must be reported to upper management.⁷⁸

To avoid conflicts, Sawyer recommends using diplomacy and tact. Make sure that senior management is never surprised about anything brought to the attention of the audit committee or board of directors. Include management’s views and their proposed action when reporting a weakness in control.⁷⁹

Sawyer refers to the research study done by Frederic E. Mints that indicates a participative, teamwork type of relationship results in acceptance of recommendations made as a result of an audit.⁸⁰ Sawyer recommends having the attitude of a counselor or diplomat. The internal auditor should be fair, candid, compassionate, understanding, and sensitive to the feelings of others.⁸¹

One responsibility is to protect management by identifying risks and weaknesses in controls. Auditors have another responsibility to be alert for management fraud and report it to authorities within the organization. Sawyer recommends using analytical

⁷⁸ Lawrence B. Sawyer, “Janus or The Internal Auditors Dilemma,” The Internal Auditor (December 1980), p. 19.

⁷⁹ Ibid., p. 22.

⁸⁰ Ibid., p. 23.

⁸¹ Ibid.

review and benchmarking to find unusual items that could indicate fraud. When a problem is detected, make sure senior management is aware of it and give them a chance to correct the situation. Then report it to the audit committee or the chief executive officer.⁸²

The internal auditor wants to work with operating management in a problem-solving partnership. At the same time, there is a responsibility to report deficiencies to their superiors. To deal with the conflicting responsibilities, the internal auditor should keep the atmosphere open and fair. Significant deficiencies must be reported. From the beginning operating management should be told that there will be no surprises and that all findings will be discussed with them as the audit progresses. Assure them that nothing will be hidden. They will be allowed to see the evidence. Sawyer says to offer counsel in determining corrective action. The action taken will be up to the manager. Minor deficiencies can be corrected and forgotten. Significant ones will have to be reported.⁸³ The participative audit style seems like the best way to deal with the conflicting responsibilities except in the case of management fraud.

Power

People fear and respect power. Sawyer and Dittenhofer explain how internal auditors can use power to get increased cooperation from auditees. Sources of power include the ability to report findings, technical knowledge, ability to analyze and draw conclusions, the personal relationships that are formed, the ability to help others, and the ability to exert pressure by going to a higher level of management. Internal auditors have

⁸² Ibid., p. 24-25.

⁸³ Ibid., p. 25-27.

interpersonal skills that enable them to deal effectively with people by knowing their needs and helping them to achieve by relating those needs to that of the organization.⁸⁴

Conflicts will be minimal if the internal auditor understands that working in an organization is essentially a social activity and so it is political. Work is always political when people are involved. To be effective the internal auditor needs to seek out power and form an alliance with its source. During the preliminary survey, he or she should find out who the real leaders are, and what are their motives, their fears, their likes and dislikes.⁸⁵ Getting the Vice President to sign a letter announcing the upcoming audit and asking for support and cooperation has helped. This letter should then be sent to the manager of the operation with questionnaires that will be discussed at the preliminary survey.⁸⁶

How the Internal Auditor Can Use Politics

In an article published in 1992 entitled “The Political Side of Internal Auditing”, Sawyer writes that technical skills are not enough for success in some cases. He gives an example he heard about from Gil Courtemanche, an internal auditing author. It is a story of a brilliant new internal auditing director who turned an internal auditing department around from being a group of losers to successful professionals. However, he left the company because of the culture and politics of the organization.

Politics is “the art of pursuing any policy, along with being sagacious, prudent, shrewd, judicious, and expedient. . . scheming, crafty, cunning, and artfully or skillfully

⁸⁴ Sawyer and Dittenhofer, Sawyer’s Internal Auditing: The Practice of Modern Internal Auditing, p. 1231.

⁸⁵ Sawyer, “The Political Side of Internal Auditing,” p. 30.

⁸⁶ Sawyer, “The Human Side of Internal Auditing,” p. 41.

contrived. . . the acquisition and exercise of power, either formally or informally.”⁸⁷

Sawyer writes that internal auditors should use politics to place importance on consensus building to solve problems, to get things done outside the formal network, to promote internal auditing, and to avoid conflicts. When conflicts arise, internal auditors want to use persuasion not force.⁸⁸

Culture

Culture is “the correct way to perceive conditions, think about them, and feel about them.” It is a set of assumptions, often not recorded, that explains why leaders do what they do as manifested by their behavior rather than written policy. Culture can be analyzed by looking into the areas that concern management. Also, what is measured and controlled tells about the culture. Internal auditors need to appreciate culture to understand what is acceptable; why one recommendation is accepted but another one is not. Culture can include traditions.⁸⁹

Informal Organization and the Grapevine

Politics and power is often found in an informal organization. The power is held by natural leaders who have authority because of their personality or expertise. These people can accept or reject audit recommendations. Internal auditors can learn about the informal organization by observing and listening when talking with personnel, being aware of body language and evasions. The communication source of the informal

⁸⁷ Sawyer, “The Political Side of Internal Auditing,” p. 27.

⁸⁸ Ibid.

⁸⁹ Ibid., p. 28.

organization is the grapevine. The internal auditor can use the grapevine to find out the true feelings of people in the organization.⁹⁰

Three Sources of Political Power

There are three political power sources for the internal auditor: senior management, the audit committee, and the external auditors. It is normally the CEO that the internal auditor will turn to in a conflict situation. But the internal auditor should avoid creating dilemmas for the CEO, who wants to be bothered with conflicts as little as possible. He or she will be happier if the internal auditors cooperate with line managers to solve problems. Sawyer says in some cases the CEO may actually want a conflict situation between internal audit and another manager to teach them a lesson.⁹¹

If it is a problem with senior management, the internal auditor should involve them in correcting the situation and then let senior management bring it to the attention of the board of directors or audit committee. Instead of proudly parading the deficiency, the internal auditors can let management save face by being a concerned team player. If it is a sensitive matter that could embarrass the organization it should be reported with discretion and kept contained. Of course if it is an ethical matter, or involves the auditor's integrity, he or she may have to go to the highest level.⁹²

Members of the board of directors and audit committees have had increasing responsibility placed on them. They have come to rely more on internal auditors for information pertaining to corporate governance. The internal audit charter normally is approved by the audit committee. Internal auditors may have unrestricted access to the

⁹⁰ Ibid., p. 29.

⁹¹ Ibid., p. 31.

⁹² Ibid., p. 32.

committee without management present. It might seem that this gives internal auditors power that will shield them from any harm. The politics of the situation may be quite different. Also the audit committee is interested in financial matters whereas the internal auditor deals with operations throughout the organization.⁹³ Committee members do not enjoy conflicts and do not want to see management embarrassed. The committee might side with management. If they did not, then the internal auditor has made enemies of management and committed political suicide.⁹⁴

The external auditors are a source of power. They usually have ties with the audit committee and normally have a narrow view of internal auditing. Internal auditors must maintain friendly relations by coordinating the long-range audit schedule. Internal auditors need to instill in the audit committee a sense of reliance and trust. The audit committee then can serve as a big stick for the internal audit department, if it relies on the internal auditors without question.⁹⁵ “Skillful and wise is that internal auditor who can perform scrupulous internal audit work that satisfies professional standards while at the same time shrewdly observing existing politics and culture in order to survive and make a difference.”⁹⁶

In 1995, Sawyer published an article on the philosophy of internal auditing in which he wrote his ten little maxims that should be followed to strive for excellence in the practice of internal auditing. These are basic premises such as striving to improve operations and basing the audit procedures on an activity’s objectives. One of these most

⁹³ Ibid.

⁹⁴ Ibid., p. 33.

⁹⁵ Ibid.

⁹⁶ Ibid.

basic philosophies is that politics and culture will usually win over rules and regulations.⁹⁷

Conclusion

The writings of Sawyer on the topic of the politics of internal auditing are analyzed for consistency. Any change is evaluated in light of the environment and the changes happening in the internal auditing profession. The writings are then compared to a timeline of professional publications and events for originality.

Evaluation for Consistency

The writings of Lawrence B. Sawyer in the area of the politics of human behavior are absolutely consistent. No inconsistencies were noted. The new material added over the years was referenced to new research or articles that had been published by others such as in the area of sources of power, feedback on auditee's perceptions after an audit, and effective presentations skills. Sawyer incorporated new research and publications to keep his book The Practice up to date with developments in the profession.

Another new topic added to the writings was the conflicting responsibilities of internal auditors. This was the subject of a journal article and was added to The Practice as well. Sawyer's writings had always had a managerial focus. The participative audit is getting management involved in the audit process. The professional standards were issued in 1978 and required an organizational focus. Internal auditors were to serve management and the board of directors. This new organization-wide focus was due to directors being held more accountable for oversight. Internal auditing can be a source of

⁹⁷ Lawrence B. Sawyer, "An Internal Audit Philosophy," Internal Auditor (August 1995), p. 53.

information and assurance for them. After the standards were issued, Sawyer's writings had more of an emphasis on serving the audit committee and board of directors. This creates a conflict as internal auditors attempt to work with management to help them solve problems and report to the board of directors on how well management is doing. The addition of this topic of conflicting responsibilities was probably the result of the change in the focus of professional internal auditing required by the standards.

Comparison to the Professional Timeline

Reference to the internal auditing professional timeline reveals several items that could relate to politics or dealing with people. The writings of two other significant authors will be consulted. The first book on internal auditing of any significance was published in 1941. It was written by Victor Z. Brink. Bradford Cadmus wrote the first book on operational auditing. It was published in 1964. The Common Body of Knowledge was a research study conducted by the IIA to determine what knowledge should be demonstrated for professional certification as an internal auditor. It was published in 1972. All of these preceded Sawyer's writings on political topics. The Standards for the Professional Practice of Internal Auditing were issued in 1978.

The Writings of Victor Z. Brink

Brink writes that the operational auditor must have technical competence but it is equally important that he or she have the ability to work with people. In Brink's words:

He must encourage the friendly cooperation which is a prerequisite to any successful undertaking. Changes, corrections, recommendations, and the like must be worked out tactfully and so far as possible by suggestion.

Personalities must be avoided and action of any kind which may induce resentment or friction be tempered to whatever extent possible.⁹⁸
He says without this ability, the work and influence will be ineffective.⁹⁹

Qualities that are needed to deal with people include courtesy, good appearance, and an attitude described as follows:

At the outset there is likely to be a suspicious and perhaps resentful attitude taken by the employees toward the auditor. It is the first task of the auditor to break down that feeling, and to convince the employees that he is not a detective – that instead he is motivated by sincere objectives of helpful and constructive service. By a proper use of tact, a willingness to help, and a generally courteous attitude, the auditor can win needed cooperation and still accomplish his major objectives.¹⁰⁰

Brink writes that it is important to be able to express thoughts orally and in writing both clearly and logically.¹⁰¹ The written report is the chief means of communicating findings to higher authority for consideration and action. Only significant deficiencies and improvements likely to be of interest to management should be included.¹⁰² All findings and recommendations should be discussed with personnel during the audit.¹⁰³ Recommendations are more likely to be accepted if presented tactfully. The tone of the report should be objective, sincere, and considerate.¹⁰⁴

The Writings of Bradford Cadmus

Cadmus writes that the requirements for an internal auditor include a liking for people.¹⁰⁵ In describing the competent internal auditor he writes that he is truly interested in the problems and the successes of operating personnel. Things that seem wrong are

⁹⁸ Victor Z. Brink, Internal Auditing: Its Nature and Function and Methods of Procedure (New York, New York: The Ronald Press Company, 1941), p. 59.

⁹⁹ Ibid., p. 60.

¹⁰⁰ Ibid., p. 66.

¹⁰¹ Ibid., p. 59.

¹⁰² Ibid., p. 409.

¹⁰³ Ibid., p. 405.

¹⁰⁴ Ibid., p. 415-416.

¹⁰⁵ Bradford Cadmus, Operational Auditing Handbook (New York, New York: Institute of Internal Auditors, 1964), p. 464.

not looked upon as crimes but as guides to improvement. He is not looking to find fault but looking for how the problem can be avoided in the future. He is not dogmatic, meaning he does not have preconceived ideas about what is right or wrong. Most importantly, Cadmus writes on the topic of attaining cooperation:

He looks on himself as a partner – not a rival – of those he is auditing. His objective is to help them – not to criticize. He works with them, consults with them and reviews his recommendations with them. His concern is to improve the operation of his business – and he is more interested in having the improvement made, than in receiving credit for the accomplishment.¹⁰⁶

Cadmus also recognized the importance of good listening skills. The internal auditor encourages personnel to talk freely and often gets constructive criticism and new ideas as a result. Cadmus writes that during the preliminary survey, the internal auditor must show a sincere interest as a sympathetic listener, not a tale-bearer.¹⁰⁷ The preliminary survey is the time to build rapport with personnel. The internal auditor must learn to see the business from their point of view.¹⁰⁸

Cadmus recommends discussion of findings and possible solutions during the audit. Minor deviations can be corrected right away and not reported at all. Major deviations should be discussed and if agreement is reached, the report can present a joint recommendation from operating personnel and internal auditors.¹⁰⁹

A Common Body of Knowledge for the Practice of Internal Auditing

This report was the result of a survey done by the IIA in 1972 for the purpose of determining the knowledge that should be demonstrated for certification as a professional internal auditor. Behavioral science and communications were rated from one to two on

¹⁰⁶ Ibid., p. 20–21.

¹⁰⁷ Ibid., p. 26.

¹⁰⁸ Ibid., p. 460.

¹⁰⁹ Ibid., p. 31-32.

a three-point scale, with three being the most important. Auditing, accounting, and finance were topics given the most important rating. Behavioral science and communications were in the same rating category as computer science, internal control and production.¹¹⁰ This indicates the importance that the profession placed on these skills prior to the publication of Sawyer's The Practice.

The Standards for the Professional Practice of Internal Auditing

The topics of interpersonal relations and communications are still relevant to the success of the professional internal auditor and are included in the professional standards. Skill in dealing with people and communications is required for professional proficiency and due professional care. The standards specify dealing with people means understanding human relations and maintaining satisfactory relations with auditees. Internal auditors must be skilled in communications to convey audit objectives, evaluations, conclusions, and recommendations clearly and effectively both orally and in writing.¹¹¹

Comparison of the Writings of the Authors

Both Brink and Cadmus wrote in their books that the internal auditor must be able to work with people. Sawyer explained why this is true and gave proof that people's attitude about the internal auditor may affect the degree to which they will adopt his or her recommendations. Brink wrote that there could be conflict and resentment to overcome. Sawyer gave evidence from the research of others to support his writings. He told readers about the differences between line and staff employees and that people

¹¹⁰ Sawyer, The Practice of Modern Internal Auditing, p. 29-30.

¹¹¹ *Ibid.*, p. 818.

naturally resist control. He explained the causes of resistance such as fear of change, the unfairness of critical reporting, and a non-effective attitude of the internal auditor.

Sawyer provided specific details of how to be a good listener, whereas Cadmus just said that the internal auditor must be a good listener. Sawyer writes about interviewing and presentation skills. He gives readers ways to resolve conflicts. Giving credit for the research done by others, Sawyer provides useful information. Both Brink and Cadmus write that good communication skills are necessary for internal auditors, but no detail is provided.

On the topic of attitude, both Brink and Cadmus stressed the same ideas as Sawyer. Brink wrote of the internal auditor as friendly, courteous, tactful, helpful, and constructive and not like a detective. Cadmus wrote that the internal auditor is understanding, sympathetic, helpful, not critical, not dogmatic, and not a fault-finder. Cadmus called the internal auditor a partner and one who is interested in the success of the auditee. Sawyer goes further by writing about how to get the auditee to actually perceive that the internal auditor has these good qualities.

Both Brink and Cadmus wrote that the internal auditor should discuss all findings with the operating manager during the course of the audit, discuss the report draft at the conclusion, and that the report should include only significant matters. Both of these writers revealed only a participation in the results of the audit. The idea of participation during the planning is not represented. Sawyer wrote about being open with the auditee in the planning stage. Getting input is a way to get acceptance and cooperation.

Neither of the earlier authors wrote about the use of power by the internal auditor. At the time of their writings, the internal audit function was management focused. Many

internal auditors were reporting to the controller of their organizations. Most internal auditors probably did not have contact with the members of the board of directors. Internal auditors did not have these sources of power available to them, or it was not recognized during the early years of the profession. Sawyer first included the topic in The Practice referring to the results of research published elsewhere.

The topic of conflicting responsibilities became relevant to internal auditing when the professional standards were issued in 1978. Prior to that time, internal auditing had a management focus. The standards required the internal auditor to be of service to the organization and this includes management and the board of directors.¹¹² The question of whether internal auditors should be serving management or acting as a control over them is not new. Brink considered this debate when discussing the internal audit profession of the future.¹¹³ He said that it could be possible to serve both interests through dual reporting. By having limited access to the board of directors, but still reporting generally to a member of executive management, internal auditors could serve in both capacities. They could act as a tool of control for management, yet serve as a check on management for the board.¹¹⁴ Sawyer first wrote about the conflicting responsibilities in 1980, after the standards were issued.

Sawyer included topics in his writings that were not really new ideas. He used what was relevant to the profession from all available sources. He assembled information. He provided the details and examples, making information more useful. As developments occurred, such as research in human relations or issuance of professional standards, the results can be seen in his work. The Practice is a good reference source for

¹¹² Sawyer, The Practice of Modern Internal Auditing, p. 811.

¹¹³ Brink, p. 501.

¹¹⁴ Brink, p. 46.

human relations theory, as it applies to the profession of internal auditing, bringing all the information together in one place.

In the area of the politics of internal auditing, Sawyer's unique contribution is the participative audit. His approach of getting the auditee involved is much more developed. He believed in getting the auditee involved in the planning and conducting of the audit, as well as in developing solutions for deficiencies. The mystery and fear of the unknown is dealt with by open communications before, during, and after the audit. This team approach to internal auditing is Sawyer's answer to interpersonal relations as well as power struggles and conflicting responsibilities.

CHAPTER VII

THE PHILOSOPHY OF INTERNAL AUDITING

This chapter is an analysis of the writings of Lawrence B. Sawyer on his philosophy concerning internal auditing. Included is what he thought were the most important considerations to the practice of internal auditing. Two of Sawyer's books, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing (The Practice) and The Manager and the Modern Internal Auditor: A Problem-Solving Partnership (The Manager) are relevant to his philosophy as well as several journal articles. These will be summarized in the following sections after the materials are introduced.

The Manager was published in 1979 and combines management theory with internal auditing theory and practice. Sawyer wrote that the purpose of the book was to show internal auditors how to expand their service to the organization by using management principles and good business practices. This would help the profession reach what he felt was its highest aspiration, to be a part of the executive management team. Internal auditors need a working knowledge of the skills of management, the nature of management and the process of management.¹ The book was also designed to give managers an idea of what internal auditing is about and how they stand to gain from establishment of an effective, productive, working partnership.²

¹ Lawrence B. Sawyer, The Manager and the Modern Internal Auditor: A Problem-Solving Partnership (New York, New York: AMACOM, American Management Association, 1979), p. vii.

² Ibid, p. viii.

In 1996 the book was republished as a second edition with Gerald Vinten as coauthor. There were three new chapters added on management theory that appear to be written by Vinten. Little was changed as far as the previously published material.

The Practice was first published in 1973, and revised in 1981, 1988, 1996, and 2003. It is both a reference guide for working internal auditors and a college textbook. It is a comprehensive, how-to book covering every phase of an internal audit and how to run an internal audit department. It is practice oriented; however, there is enough explanation to get some insight on Sawyer's philosophy as well. Sawyer always included why in his writings. He said, "The what, the where, the who, and the how make us more knowledgeable, but the why makes us wiser."³

Several of the published articles such as "Just What is Management Auditing" also explain what the internal auditor's role should be, such as a partner with management, a consultant and teacher, and helper to management in reaching organizational goals. The central focus of the analysis will be around Sawyer's ten maxims that were published in an article entitled "An Internal Audit Philosophy." A listing of all the articles that relate to Sawyer's philosophy of internal auditing are included in Table 12 that follows.

The material is summarized and analyzed for consistency. Changes are analyzed in light of known environmental forces. The ideas are compared to an internal auditing profession timeline for authenticity. From this, a conclusion is reached as to the effect of Sawyer's writings about internal audit philosophy on the profession of internal auditing.

³ Lawrence B. Sawyer, "Why Internal Auditing," Internal Auditor (December 1993), p. 43.

Table 12

List of Journal Articles
Title and Contents on the Subject of
The Philosophy of Internal Auditing

“An Internal Audit Philosophy,” (August 1995) – Ten maxims representing his philosophy, learned from experience, are discussed. See Table 13 for a list of these.

“Auditing Anything Under the Sun,” (December 1981) – Internal auditors should take an active role in planning and reviewing basic assumptions and inputs.

“Consultant to Management: The Internal Auditor’s Emerging Role,” (June 1981) – Being a champion for management’s rights and needs is a good business practice.

“Developing Executive Compensation Programs: A Fresh Approach,” (June 1994) – An example of management-oriented auditing - giving management information that is needed.

“Improving the Bottom Line,” (August 1983) – Improve profits by improving management skills. The internal auditor can be a consultant to management.

“Internal Auditing, Yesterday, Today, and Tomorrow,” (December 1979) – The internal auditor was a shadow of the external auditor, but now uses a modern management-oriented approach.

“Internal Control – The Internal Auditor’s ‘Open Sesame’,” (January/February 1970) – Operational auditing centers around control and understanding the objectives. It requires thinking like a manager.

“Just what is management auditing?” (March/April 1973) – Management auditing is auditing of managers, for managers, and by managers. Modern internal auditing is not bean counting; it is about effectiveness and efficiency. Ten Commandments are given; see Table 11 for a list of these.

“Observations on the 1971 Revision of the Statement of Responsibilities of the Internal Auditor,” (September/October 1971) – The responsibilities of the internal auditor has changed from mostly financial assessment to financial and operational assessment to organization-wide operational assessment. The internal auditor is still responsible for assessment in the financial area, it is just not emphasized.

“Performance Evaluators?” (February 1998) – This term better describes what internal auditors really are. Sawyer explains why “internal auditor” is no longer an accurate description for what internal auditors do.

“Reflections on a Half Century of Internal Auditor,” (August 1993) – Sawyer gives his feelings on changes in the professional journal. He said the journal reflects a change in the profession from verifier of facts to problem-solving partner with management.

“Sworn Depositions” (October 1994) – The internal auditor is not a ticker or checker searching for errors, but a consultant to management. This article gives pointers to the internal auditor that is called to be a witness or give a deposition.

“Talk to me, please!” (June 1997) – This is an example of management-oriented auditing in the human resources area. Sawyer tells how to help management avoid a wrongful termination law suit.

“The Anatomy of Control” (Spring 1964) – The Internal Auditor must be an expert on control and understand the objectives. Controls are the means to achieving management’s objectives.

“The Creative Side of Internal Auditing,” (December 1992) – Three ingredients for management-oriented auditing are to be skeptical, to analyze, and to create something new and better. Three creative techniques, such as brainstorming, are discussed.

“The Essence of Management-Oriented Internal Auditing,” (June 1984) – Instead of purging accounts of errors, internal auditing should be about helping management to improve operations.

“Tomorrow’s Internal Auditor,” (June 1978) – The future depends in part upon use of the management-oriented approach. This is auditing to see if the basic principles of management are being applied.

“When the Problem is Management” (August 1998) – Given that mismanagement places organizations at risk, internal auditors should include in their audit an evaluation of management using the basic principles of management theory.

“Why internal auditing?” (December 1993) – Internal auditors satisfy management needs for information. They give assistance by teaching, counseling and evaluating, and by integrating with other disciplines to better the organization. The internal auditor must be creative and relish a challenge.

Sawyer's Ten Maxims

Sawyer summarized his theories about what internal auditing is in an article published late in his career, in 1995, entitled "An Internal Audit Philosophy". In it he discusses ten sayings that embody what he had learned in over 50 years in the profession. The analysis of Sawyer's writings is organized around these ten maxims. These are listed in Table 13 that follows. It should not be confused with Sawyer's Ten Commandments for internal auditing, which are practice oriented. There is some overlap, however. Two ideas are included in both listings. The Ten Commandments include know the objectives (included here) and know the facts, which is very similar to don't believe what the first person tells you (included here).

1. Leave every place a little better than you found it.

The purpose of internal auditing should always be improvement. Sawyer wrote in 1995 that the purpose of internal auditing is not to spy for management. Nor is it solely to look for what is wrong and make corrections. Both of these considerations are too limiting and negative. It also is not just about making management look good by assisting them to do their jobs better. It is actually all of these if the effort is directed toward improvement.⁴ In this section, Sawyer's definition of internal auditing, his theory of management-oriented auditing, and the new role for internal auditors as consultants are discussed.

⁴ Lawrence B. Sawyer, "An Internal Audit Philosophy," Internal Auditor (August 1995), p. 46.

A Definition that Stands the Test of Time

Sawyer's definition of internal auditing was first published in a 1979 journal article. It was included in the second and later editions of The Practice and has changed very little.

Internal auditing is the independent appraisal of the various operations and systems of control within an organization to determine whether acceptable policies and procedures are followed, established standards are met, resources are used efficiently and economically, planned missions are accomplished effectively, and the organization's objectives are being achieved.⁵

The definition in Sawyer's textbook published in 1996 includes some minor wording changes and the addition of risk analysis. Risk analysis had been included in the preliminary survey chapter of the first edition of the text. It just was not included in the definition until later. The reference to standards is explained to include reviewing for compliance with laws and regulations, and whether operating and financial reports are accurate, timely, and useful. The definition includes not only checking for compliance with policies and procedures, but reviewing the policies and procedures for reasonableness. The auditor appraises the use of resources for efficiency and determines whether planned benefits are being obtained from activities.⁶

The Progression of Management-Oriented Auditing

Modern internal auditing is sometimes called management auditing or management-oriented auditing by Sawyer because he says it is doing what the president

⁵ Lawrence B. Sawyer "Internal Auditing Yesterday, Today, and Tomorrow," The Internal Auditor (December 1979), p. 26.

⁶ Ibid.

Table 13

Sawyer's Ten Little Maxims
(Published in 1995 "An Internal Audit Philosophy")

1. Leave every place a little better than you found it.
 2. You can't stomp your foot when you are on your knees.
 3. Know the objectives.
 4. Nothing ever happens until somebody sells something.
 5. Every deficiency is rooted in the violation of some principle of good management.
 6. Never believe what the first person tells you.
 7. The best question is, "Mr. or Ms. Manager, how do you satisfy yourself that . . . ?".
 8. Politics and culture will usually win over rules and regulations.
 9. When you point your finger, make sure your fingernail is clean.
 10. Murphy was an optimist.
-

would do if he had the time and knew how.⁷ The modern internal auditor does not just check details; he or she sees the big picture as well and evaluates the situation from the view of management.⁸ One objective of every project is to consider how to expand the service to management.⁹ This was how Sawyer saw internal auditing in 1973.

Sawyer's writings in 1979 specified the internal auditor's place as counselor of management at all levels, but emphasized looking at what concerned top management and seeing the operation through the eyes of top management.¹⁰ The role of the internal auditor is to provide managers with information they need to make decisions. Internal auditors should question the workability of plans, policies and procedures and determine if they are consistent with the organization's overall objectives.¹¹

In the 1981 edition of The Practice internal auditing is described as an extension of management, not just the eyes and ears of management. However, he is quick to point out that internal audit is staff, not line personnel, and have no authority for making decisions.¹²

Sawyer warns that with the expanded scope of all operations, internal audit cannot overlook its responsibilities to review accounting controls. He refers to financial audits as the bread-and-butter audits.¹³ He points out that the primary responsibility of external

⁷ Lawrence B. Sawyer, "Just what is management auditing?," The Internal Auditor (March/April 1973), p. 11

⁸ *Ibid.*, p. 12.

⁹ Lawrence B. Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management (New York, New York: The Institute of Internal Auditors, 1973), p. 89.

¹⁰ Sawyer, The Manager and the Modern Internal Auditor: A Problem-Solving Partnership, p. 32.

¹¹ *Ibid.*, p. 209.

¹² Lawrence B. Sawyer, The Practice of Modern Internal Auditing, (Altamonte Springs, Florida: The Institute of Internal Auditors, 1981), p. 7.

¹³ *Ibid.*

auditors is the financial statements. Internal auditors do not ignore accounting controls but their mission is broader.¹⁴

The essence of management-oriented internal auditing is really a service to the organization that is management oriented rather than accounting oriented. This is how Sawyer described internal auditing in a 1983 article. Internal auditing did not have a good image at the time and Sawyer wanted to see it changed.¹⁵ This is possible if the internal auditor will try “To make the manager look good.”¹⁶ Sawyer says management-oriented internal auditing is helping management at all levels by supplying information and helping with problems. Auditors must educate themselves on the functions of management “to aid and counsel not to carp and criticize”. Sawyer says there are two aims as internal auditors, first to take an objective picture of what we see, and the second is one of his famous sayings. “Leave every place a little better than we found it.”¹⁷

In 1993 Sawyer wrote that internal auditing had transformed itself from verifiers of facts to problem-solving partners of management.¹⁸ However, as recently as 1998, Sawyer wrote an article about how the general public does not understand what an internal auditor really is. They most often think of an accountant who does mathematical verification. The gist of the article was that internal auditors should change their titles to performance evaluators.¹⁹

In 1995 Sawyer’s philosophy includes any way the internal auditor can help to improve the organization for all levels of management, including the board of directors,

¹⁴ Ibid., p. 8.

¹⁵ Lawrence B. Sawyer, “The Essence of Management-Oriented Internal Auditing,” The Internal Auditor (June 1984), p. 42.

¹⁶ Ibid., p. 43.

¹⁷ Ibid., p. 46.

¹⁸ Lawrence B. Sawyer, “Reflections on a Half Century of Internal Auditor,” Internal Auditor (August 1993), p. 20.

¹⁹ Lawrence B. Sawyer, “Performance Evaluators?,” Internal Auditor (February 1998), p. 112.

and for all the people concerned other than management. This may be by helping management to make improvements, by correcting deficiencies, or uncovering fraud.²⁰

Sawyer and Vinten wrote in 1996 that the internal auditor was more directed toward management principles than accounting principles and that their purpose was to provide analysis, appraisals, recommendations, council and information.²¹ Although the auditor serves the entire organization, including the board of directors, the service to management is still likely to represent the larger portain of the internal auditor's activity.²²

Sawyer always described internal auditing as a service to management. Early on this was focused toward the top management (president). Quickly this was changed to management at all levels. Then it was recognized that the service also should include the board of directors and the audit committee as well as anyone concerned with the organization. Sawyer believed in auditing all operations and activities, not just accounting, but not to exclude accounting either. The expanded scope into any concern of management is discussed in the next segment.

Consultant to Management

Consulting is an area of work that Sawyer sees as really lifting the profession of internal auditors to the level of executive management.

Well-executed management studies can probably do more for the stature and the image of the Internal Auditing organization than any other effort it undertakes. They are outside the ordinary routine. They answer a particular, current, pressing need of management, and therefore have management's special attention. They prove that the Internal Auditing organization can be a part of a problem-solving partnership with executive

²⁰ Sawyer, "An Internal Audit Philosophy," p. 46.

²¹ Lawrence B. Sawyer and Gerald Vinten, The Manager and the Internal Auditor: Partners for Profit (New York, New York: Wiley, 1996), p. 3.

²² Ibid., p. 16.

management and that the internal auditor can perform more economically and more successfully the function generally considered to be exclusively within the purview of the outside consultant.²³

Some examples of these type studies can be found in Sawyer's writings.

"Developing Executive Compensation Programs" is an article published in 1994 that explains how an auditor can function as consultant in this sensitive area. Internal auditors know the people, the systems, and where information is located in the organization. They are objective and are experts on internal control. In addition, by providing consulting services, the internal auditors can save the organization expensive consulting fees.²⁴

Sawyer illustrates how auditors can help managers with statistical and mathematical modeling techniques in his article "Consultant to Management: The Internal Auditor's Emerging Role". In it he also explains how to help management with the proper way to solve a problem or make a decision with a step-by-step process. He encourages internal auditors to keep learning, because if they have the skills, management will not have to look outside the company for help.²⁵

In other articles he tells readers how to help management avoid wrongful discharge lawsuits, how to testify as a witness, and how to serve as consultant to legal council. Design assessments and production efficiency assessments are two examples from a 1993 article that describes internal auditing as any evaluation that can affect the well-being of the whole organization. "The Modern internal auditor is more consultant

²³ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 310.

²⁴ James A. Kuhns and Lawrence B. Sawyer, "Developing Executive Compensation Programs," Managerial Auditing Journal (December 1994), p. 29.

²⁵ Lawrence B. Sawyer, "Consultant to Management: The Internal Auditor's Emerging Role," The Internal Auditor (June 1981), p. 31-38.

than verifier and is more dedicated to improving systems than detecting errors. More interested in leaving every place they evaluate a little better than they found it.”²⁶

2. You can't stomp your foot when you are on your knees.

Internal auditors must have the full support of management to be effective. Improvement begins with getting management's attention (the stomp of the foot). The standing position represents a highly respected status within the organization. Management support should be visible in documentation that specifies an unlimited scope and unlimited access to people, information, and properties. Documentation must specify that recommendations will be properly considered. True respect comes from internal auditors having a reputation for professional work and from the power they have to take a recommendation to the top if necessary to get adequate consideration.²⁷ On organizational status, Sawyer says:

The internal auditor must have a sound understanding of company objectives. He will rarely have that understanding if his organizational status is low. Primary organizational objectives are promulgated at the highest levels in the enterprise, and the director of internal auditing must be able to convince executive management that he can perform a high-level function only if he is a part of the councils of executive management. He must be privy to the minutes of the board of directors, and he must periodically meet with the audit committee of the board and with top executives as he lays out his long-range audit program and inquires where he can best be of service. A knowledge of top management's thinking improves the service the internal auditor can offer.²⁸

This topic is further considered in Chapter VIII, The Professionalism of Internal Auditing.

²⁶ Sawyer, "Why Internal Auditing?," p. 44.

²⁷ Sawyer, "An Internal Audit Philosophy," p. 47.

²⁸ Sawyer, The Manager and the Modern Internal Auditor: A Problem-Solving Partnership, p. 266.

3. Know the objectives.

Sawyer writes that knowing the mission or reason for being is always the first step in any audit. The audit objectives will be based on the mission of the function being audited. Sawyer tells a story of an old man who met a frog that asked to be kissed in order to break a spell and return to being a beautiful princess. The old man did not kiss the frog because at his age, he said he would rather have a talking frog than a beautiful princess. The moral of the story is “Know their objectives and you know what drives the people or the activities you are dealing with.”²⁹

Sawyer says if the objectives are truly understood, the auditor can test the controls set up to accomplish the objectives and be “doing the things for management that the managers would be doing for themselves if they had the time to do them.”³⁰ Sawyer’s articles provide two specific examples of how to relate the audit tests to controls established to accomplish management objectives. This results in audit work that is directly related to management objectives.³¹

Sawyer emphasized controls as the focus of operational auditing that opens the doors to any area for audit.³² However, “controls are adequate and useful only if designed to attain an objective. And internal auditors must know the objective before they can properly evaluate the means of control.”³³ It is important that the objectives for a particular unit be consistent with the organization’s overall objectives. Sawyer says

²⁹ Sawyer, “An Internal Audit Philosophy,” p. 47.

³⁰ Lawrence B. Sawyer, “Internal Control – the Internal Auditor’s ‘Open Sesame’,” The Internal Auditor (January/February 1970), p. 47.

³¹ Lawrence B. Sawyer, “The Anatomy of Control,” The Internal Auditor (September 1964), p. 79.

³² Sawyer, The Practice of Modern Internal Auditing, p. 54.

³³ *Ibid.*, p. 59.

that objectives should be adequately communicated to the people doing the work so that they understand the controls in place and are more likely to follow them.³⁴

Objectives are also important to assignments other than audits such as consulting or gathering information for decision making purposes. Before gathering facts, the internal auditor should know what the objectives are. A problem must be clearly stated before it can be solved. A consulting assignment starts with understanding what is to be accomplished.³⁵ Sawyer gives examples throughout his book, The Management, on appraising the functions and principles of management as they relate to the organization's objectives.³⁶ The topic of controls and objectives is further discussed in Chapter V, The Practice of Internal Auditing.

4. Nothing ever happens until somebody sells something.

Internal auditors must be able to motivate people to want to improve. This involves selling or convincing people that they want to improve. Selling should take place from the start of the audit and continue throughout each stage. Sawyer writes about selling in the first meeting with the auditee, selling recommendations, and selling the audit report and other services.

Selling In the Initial Meeting

During the initial meeting it is important to change the negative perception people often have of internal auditors and the audit process.³⁷ Sawyer gives an example of what he would say at the first meeting:

³⁴ Ibid., p. 61.

³⁵ Sawyer, The Manager and the Modern Internal Auditor: A Problem-Solving Partnership, p. 152.

³⁶ Ibid., p. 16, 50, 153, 200, 244, 268, 272, 277, 293, 319, 365, and 400.

³⁷ Sawyer, "An Internal Audit Philosophy," p. 48.

“I don’t know what experience you’ve had with internal auditors or what you’ve heard about them. Whatever that may be, set the past aside. I work differently. And I’d like you to give me a chance to prove it. . . My job is to see whether appropriate controls have been set up to help you meet those goals and that the controls are both adequate and effective. There is no mystery about how I carry out my job. I ask people questions, I look at procedures and records, and I prepare an audit program, which I’ll be happy to show you. . . you’ll know exactly what I am setting out to do. If I run into anything significant, I will discuss it with you promptly and in as much detail as you like. If you agree and take action, we will acknowledge that in our report. When we do draft our report we will review it with you first to make sure we are in complete agreement as to the facts. . . I don’t see an audit as a me-versus-you exercise. I see it as a joint effort to make every place just a little bit better than I found it. Now, can I be any fairer than that and still do my job?”³⁸

If the sales job comes across sincerely, Sawyer says it is the beginning of a problem-solving partnership that will be effective.

Selling Corrective Action or Recommended Improvement

In his book The Practice, Sawyer writes that it is better to sell than tell. Sawyer explains as follows:

People tend to gag on what is thrust down their throats. “You must!” is sure to raise hackles. The very same course of action that people would espouse if they thought of it themselves may be rejected, or at least resented, if recommended by another. The fact that a defect is valid and that the audit recommendation to correct it is logical and reasonable does not guarantee its acceptance by the auditee. The built-in resentment of an auditee being appraised and criticized may explode in the face of the auditor’s statement: “Here’s what I think you should do.” Auditees convinced against their will are of the same opinion still. Such is the nature of human beings. Resentment can cause auditees to work harder to scuttle a good recommendation than to carry it out.³⁹

Sawyer recommends full and clear communication during the audit and agreement to all facts and their interpretation regarding a finding, to improve the possibility of selling the audit findings. Discussing audit findings and support as early as

³⁸ Ibid., p. 48-49.

³⁹ Sawyer, The Practice of Modern Internal Auditing, p. 234.

possible and resolving any disagreements before reporting is best. Insignificant findings need not be reported if corrected. The auditee should be encouraged to correct deficiencies as soon as possible. Sawyer says findings should be reported as “our finding” rather than the auditor’s finding, if possible. A professional and organized presentation can also help to convince the auditee.⁴⁰ The selling continues until the recommended improvement is seen to be effective.⁴¹

Selling the Audit Report

In a later edition of the book, The Practice, the authors have added a section on selling the audit report. Recipients may not appreciate the report because they don’t see the value in it. It is the internal auditor’s job to educate them. A presentation can be made to explain the participative process of the audit, the professionalism of the staff, advantages for each level of management, and how internal audit can help management in problem solving.⁴²

Selling Other Services

Internal auditors must also sell consulting services to upper management. Management must be made aware of the knowledge and skills the prepared internal auditor possesses and that management does not have to look outside the company for consulting services.⁴³ First the auditor must know his product and customer. A high level of professionalism in everything done will inspire confidence. The package may need to be improved. Each report should be of the highest quality and look like something that would come from the CEO’s office. The report can have charts, graphs,

⁴⁰ Ibid., p. 234.

⁴¹ Sawyer, “An Internal Audit Philosophy,” p. 48.

⁴² Lawrence B. Sawyer and Mortimer A. Dittenhofer, Sawyer’s Internal Auditing: The Practice of Modern Internal Auditing (Altamonte Springs, Florida: The Institute of Internal Auditors, 1996), p. 736.

⁴³ Sawyer, “Consultant to Management: The Internal Auditor’s Emerging Role,” p. 38.

and photographs to dramatically highlight findings. Getting management's attention is the first step to being able to sell additional services.⁴⁴

Sawyer says in The Manager that most managers do not realize that the internal auditor can be a consultant and a teacher because internal auditors have not adequately sold themselves and their expertise.⁴⁵ Ways to promote themselves include the use of the participative auditing style, giving only constructive criticism that focuses on the problem rather than the person, and a continuing effort to inspire confidence in his abilities with high quality work.⁴⁶

5. Every deficiency is rooted in the violation of some principle of good management.

Someone once asked Peter Drucker if it were true that he had said that only three to five percent of U.S. businesses were well managed. He replied "Heavens, I must have been optimistic that day." Sawyer thinks part of the job of the internal auditor is to educate management on the principles of good management. This may be done as part of the discussion of audit findings. Sawyer states that every defect he ever encountered could be traced to a violation of a management principle.⁴⁷ Sawyer wrote about the four functions of management, planning, organizing, directing, and controlling, as pertaining to deficiency findings, administrative control analysis, the preliminary survey, and management effectiveness assessment.

⁴⁴ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 19-22.

⁴⁵ Sawyer, The Manager and the Modern Internal Auditor: A Problem-Solving Partnership, p. 18.

⁴⁶ *Ibid.*, p. 347-349.

⁴⁷ Sawyer, "An Internal Audit Philosophy," p. 49.

Deficiency Findings

Sawyer encourages internal auditors to learn the principles of management in an article, "The Essence of Management-Oriented Internal Auditing". He says this knowledge is necessary to be counselors to management and to provide a service to the organization that is management oriented rather than accounting oriented.⁴⁸ Sawyer provides practical examples of deficiencies that were caused by violations of management principles. For example a deficiency was reported as inadequate quality inspection when actually the problem was in the organization of management. The head of quality control was reporting to the manufacturing director who was more concerned about producing at the lowest cost than with quality.⁴⁹

In another article Sawyer gives an example of employees not following procedures related to supplies inventory. The root cause of the problem was improper supervision, and the management functions of directing and controlling were involved. The internal auditor helped the manager to devise a system of management supervision and reporting that would avoid future problems.⁵⁰

In 1998 Sawyer published an article entitled "When the Problem is Management". In it he explains that internal auditors cannot ignore the risk to the organization from poor management that can cost a company millions. Effective principles of management are explained with specific examples of how the violation of the principle resulted in a problem that was reported as a deficiency.⁵¹

⁴⁸ Sawyer, "The Essence of Management-Oriented Internal Auditing," p. 42.

⁴⁹ Ibid., p. 44.

⁵⁰ Sawyer, "An Internal Audit Philosophy," p. 50.

⁵¹ Lawrence B. Sawyer, "When the Problem is Management," Internal Auditor (August 1998), p. 33-38.

In Sawyer's book The Practice, he describes summary reporting to executive management and the audit committee by the internal audit director about the audits that have been done and the results of those audits. Deficiencies can be summarized for reporting by sorting into categories according to the management function that caused the problem. This method of reporting highlights trends indicating where the greatest problems lie.⁵²

Administrative Controls

In any departmental audit of operations the administrative controls will need to be evaluated. The goal is to determine how well the manager is using the allotted resources to meet the objectives of the department. Sawyer says "In any nonfinancial activity, the auditor who thinks like a manager will determine what control techniques and procedures the manager should have to help him or her plan, organize, direct, and control the activity."⁵³ The normal duties of management under each function are described.⁵⁴

Management-oriented auditing goes beyond verification. Sawyer wrote,

Its purpose is to assist managers in carrying out their functions economically, efficiently, and effectively – in essence, to be counselors of managers. This requires an understanding of the functions and the principles of management. One cannot counsel about a function with which one is unfamiliar. Internal auditors must be as conversant with the functions and the principles of management as any competent manager.⁵⁵

Preliminary Survey

A preliminary survey is conducted at the planning stage to get familiar with an operation to be audited. Sawyer provides a listing of violations of management principles

⁵² Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 528.

⁵³ Sawyer, The Practice of Modern Internal Auditing, p. 74.

⁵⁴ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 147-140.

⁵⁵ Sawyer, The Practice of Modern Internal Auditing, p. 707.

in The Practice. These violations could indicate errors or wrongdoing in the areas of planning, organizing, directing, and controlling.⁵⁶ The adequacy of management is assessed at this point because it is the most significant means of control in any activity. Auditors need to detect poor management -- not to point the finger at the person, but to direct attention to problems that need audit attention.⁵⁷ Sawyer provides a listing of information to obtain, questions to ask, and analysis to be done for each of the four functions.⁵⁸

Management Effectiveness Assessment

The second edition of The Practice has an entire chapter on the subject of the principles of management. For each management function, Sawyer describes exactly what managers do in carrying out their duties in detail. An objective related to directing is to train and develop manpower. A standard related to this is "Operating managers should have guidelines for employee orientation and training."⁵⁹ Suggested auditing techniques include interviewing employees on their perceptions of orientation and training.⁶⁰

This material is actually a summary of the contents of his book The Management. In it, over one-half of the material is on the topic of management principles and theory. There are many examples such as the one above, of how auditors can apply these principles in their work.

Internal auditors can teach and council management on these principles. One might think that managers know the principles in these four functional areas already.

⁵⁶ Ibid., p. 91-92.

⁵⁷ Ibid., p. 93.

⁵⁸ Ibid., p. 123-124.

⁵⁹ Sawyer, The Practice of Modern Internal Auditing, p. 698.

⁶⁰ Ibid., p. 699.

Research indicates that many managers are too busy putting out brushfires to plan and organize. This results in problems that show up as audit deficiencies. Rather than waiting until the problems arise, Sawyer advises concentrating first on the management principles to determine if they have been applied. As questions are asked and discussed, internal auditors will find that they are teachers and counselors, truly problem-solving partners.⁶¹

“Improving the Bottom Line” is the title of a 1983 Sawyer article. The topic is improving profits by helping management improve itself; because good management is a key ingredient to success. Auditors, better called internal management consultants, can provide a service by showing where principles of management have been violated.⁶²

Management functions can be reviewed as part of any operational audit or as a specific consulting assignment to itself. Sawyer explains an audit of the organizing function using an interesting illustration from the Old Testament when Moses is advised to organize levels of management. The lowest level manager was responsible for ten people. The managers would handle small matters and bring the matters of great concern to Moses. Sawyer discusses four principles from this example: structure, span of control, line versus staff, and delegation.⁶³

The company’s organizational structure should be based on the objectives and the company’s activities. Sawyer calls this strategy before structure. The auditor can look at span of control. Are there too many people under one manager? Does the manager have the knowledge and experience needed to manage people doing technical work?⁶⁴ There

⁶¹ Sawyer, “Tomorrow’s Internal Auditor,” p. 16-23.

⁶² Sawyer, “Improving the Bottom Line,” p. 21.

⁶³ Ibid., p. 21.

⁶⁴ Ibid.

should be a direct line of authority from top the bottom. The staff-line relationship should not be violated. The manager must use proper delegation. Staff, like internal auditors, can recommend or give assistance, but it is the line manager that makes the decision.⁶⁵

Signs of organizational problems are discussed. To be of service in auditing management, auditors must have knowledge of the principles of management, their company's organizational structure, and the objectives of the company's activities.⁶⁶

"Auditing Anything Under the Sun" in 1981 gives examples of how auditors can audit future oriented information, the planning function.⁶⁷ The root cause of many deficiency findings has been found to be the result of ineffective planning.⁶⁸ Auditors can test assumptions and calculations for budgets or projections for decision-making purposes.⁶⁹ There should be procedures for follow-up measurement against actual performance.⁷⁰ Sawyer also writes about an audit of budgets and planning data in the second edition of The Practice, also published in 1981.

In the third and fourth editions of The Practice this topic of the principles of management is updated with new organizational behavior theories and new management theories and references to the latest literature.⁷¹ Directing is now referred to as leadership. A new section on creativity has been added. Sawyer sees it as essential to the survival of an enterprise. This information on the creative process was the basis for a

⁶⁵ Ibid., p. 22.

⁶⁶ Ibid., p. 24.

⁶⁷ Lawrence B. Sawyer, "Auditing Anything Under the Sun," The Internal Auditor (December, 1981), p. 31.

⁶⁸ Ibid., p. 37.

⁶⁹ Ibid., p. 32.

⁷⁰ Ibid., p. 35-36.

⁷¹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 969-972.

journal article as well.⁷² Questions for managers to ask themselves or their people in order to stimulate creativity are provided in the article.⁷³

The basic message is the same throughout the different books and articles. Internal auditors should audit and council management on their administrative abilities using the principles of management.

6. Never believe what the first person tells you.

“The recommendations made are only as good as the facts on which they are based.”⁷⁴ This maxim is about gathering adequate evidence to support the audit work. All oral evidence should be verified before relying on it. Documentation should be reasonable and logical. Evidence should be convincing enough so that any reasonable person would agree.⁷⁵ At that point there is no need to continue collecting evidence.⁷⁶

The most reliable evidence should be used. Documented evidence is more reliable than someone’s statement. Evidence should logically relate to the item tested. For example, a report of goods received does not normally give evidence that a purchase was approved; but a purchase order would. Care should be used in the presentation of evidence in the working papers to reflect professional work to the reviewer or reader.⁷⁷

In The Practice, evidence is explained in legal terms and refers to oral statements as corroborative evidence.⁷⁸ In the second edition Sawyer writes that testimonial

⁷² Lawrence B. Sawyer, “The Creative Side of Internal Auditing,” Internal Auditor (December 1992), p. 57-62.

⁷³ Ibid., p. 60

⁷⁴ Sawyer, “An Internal Audit Philosophy,” p. 51.

⁷⁵ Ibid.

⁷⁶ Ibid., p. 52.

⁷⁷ Ibid., p. 52.

⁷⁸ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 313.

evidence standing alone is not conclusive and should be supported by documentation when possible.⁷⁹

In his book The Manager, Sawyer writes about the importance of creativity and innovation. He included improvement in defining internal audit in the most basic terms. However, he said that verification must come first. “The internal auditor should not, dare not, take action until verification has been accomplished.”⁸⁰ “Verification is the auditor’s oldest tool. . . It implies the deliberate efforts to establish the accuracy or truth of some affirmation by putting it to the test.”⁸¹ “A good rule to follow when audit decisions will be based on answers to oral questions is to confirm the questions by putting the same question to at least two people.”⁸² Evidence is also discussed in Chapter V, The Practice of Internal Auditing.

7. The best question is, “Mr. or Ms. Manager, how do you satisfy yourself that . . . ?”

Internal auditors must gather much of their evidence by asking questions. Questions should be incisive and probing to get accurate and complete information. Sawyer tells readers to never fear that the question is simple-minded and never assume but verify and probe further. Also never come to an interview unprepared.⁸³

Asking questions can get information about what is important to the manager and get the information fast. This is especially important in the preliminary survey. It can take too long to read through manuals, job instructions, and reports. However, some

⁷⁹ Sawyer, The Practice of Modern Internal Auditing, p. 204.

⁸⁰ Sawyer, The Manager and the Modern Internal Auditor: A Problem-Solving Partnership, p. 120.

⁸¹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 287.

⁸² *Ibid.*, p. 285.

⁸³ Sawyer, “An Internal Audit Philosophy,” p. 52.

preparation is needed to be able to ask the appropriate questions. Examples are provided in The Practice.⁸⁴

The above question is the best way for the auditor to find out if a system or procedure is working. The manager will know and can tell the auditor. If the manager does not know, that is a place to begin to work on improvement. Assessing the manager's knowledge to begin with is important. A hands-on, knowledgeable manager is a good control that may be relied upon to reduce testing.⁸⁵

Sawyer's book, The Manager, has example questions to ask for each of the functions of planning, organizing, directing and controlling. Not only knowing the right questions to ask but how to ask it is important to getting cooperation. Knowing the manager's unique style and how their people will react can be beneficial.⁸⁶

In The Practice, Sawyer says that questioning is the most pervasive technique used in operational auditing. Obtaining information without upsetting the auditee is an art. Auditors must be understanding of the threat he or she poses and modify their manner to allay fears. At the same time, the auditor must obtain the complete truth. Care should be taken to avoid leading questions.⁸⁷ Interviewing, listening, and communications skills are covered in detail in Chapter VI, The Politics of Internal Auditing.

⁸⁴ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 126-137.

⁸⁵ Sawyer, "An Internal Audit Philosophy," p. 53.

⁸⁶ Sawyer, The Manager and the Modern Internal Auditor: A Problem-Solving Partnership, p. 79.

⁸⁷ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 285.

8. Politics and culture will usually win over rules and regulations.

Internal auditors will be testing rules and regulations as well as proposing recommendations that involve procedures. If the restrictions go against the culture and politics of the organization, chances are that they will not be effective. Politics refers to who has power in the organization and culture is the traditions and beliefs that determine behavior. Sawyer says, "Skillful and wise is the internal auditor who can perform scrupulous internal audit work that satisfies professional standards while at the same time observing existing politics and culture."⁸⁸

The internal auditor considers the culture when evaluating the possibility of management fraud and the internal control environment. This environment refers to the attitude of top managers and the board of directors towards internal control systems.⁸⁹

These topics are discussed further in Chapter VI, The Politics of Internal Auditing.

9. When you point your finger, make sure your fingernail is clean.

Sawyer wrote that an internal auditor caught in a mistake will result in the friendliest of clients bubbling with delight.⁹⁰ In The Practice, Sawyer writes that because the audit report is designed to communicate deficiencies, any errors in it will be magnified in the eyes of the reader. The reader may wonder what other unseen errors have been made in conducting the examination. It diverts attention away from what is being said. The internal auditor loses credibility.⁹¹ Care should be taken to support a

⁸⁸ Sawyer, "An Internal Audit Philosophy," p. 54.

⁸⁹ Sawyer, The Manager and the Modern Internal Auditor: A Problem-Solving Partnership, p. 424.

⁹⁰ Sawyer, "An Internal Audit Philosophy," p. 54.

⁹¹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 393.

finding fully during field work. A form can be used to guide the auditor through the steps needed to properly document a problem and develop a recommendation. This will insure that all the information is handy when it is discussed with the auditee.

During a report review, the internal auditor should have all documentation ready to avoid fumbling through the working papers. One way is to have a copy of the draft of the report with cross-references to the working papers that support each part. At this point in the audit, all findings should have already been discussed and only wording changes may be considered. It is acceptable to negotiate if the auditor considers it appropriate and it does not affect the audit opinion. The opinion is the auditor's professional judgment and should not be relinquished to the client.⁹²

The final audit report should be faultless. The internal auditor will be severely criticized for any misstatement or typographical error. The report should be proofread by someone independent of the audit. Every detail should be meticulously looked up and checked with the working papers.⁹³ The Practice contains advice for proofreading with a listing of common errors.⁹⁴

The perspective of the report can be an error if it consists of negative comments only. This is according to Sawyer's philosophy of balanced reporting. Credit should be given for activities that are satisfactory. It does not take much time, as Sawyer says, it is one comment on the front page. He says this may be all that is necessary to take away the internal auditor's reputation for being a carping critic. This one comment says that the department is meeting its objectives and is carrying out activities in a reasonably

⁹² Sawyer, "An Internal Audit Philosophy," p. 54.

⁹³ Ibid., p. 55.

⁹⁴ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 391-393.

effective manner.⁹⁵ Sawyer says this shows objectivity and creates a better rapport with operating personnel.⁹⁶ Another practice that can make the internal auditor seem overly critical is to report problems without suggested solutions. This practice results in negative perceptions of the internal auditor and his or her reports.⁹⁷ These topics are discussed in full in Chapter V, The Practice of Internal Auditing.

10. Murphy was an optimist.

Even when it seems that it is impossible for something to go wrong, it does. So Sawyer warns to be prepared. In his career, when the unexpected occurred, it was these little maxims that helped. With these principles, he was always able to demonstrate that he had conducted his work in a professional manner. Sawyer says these maxims may seem oversimplified, but they are based on fundamental truths.⁹⁸ Professionalism is discussed further in Chapter 8, The Professionalism of Internal Auditing.

Conclusion

Evaluation for Consistency

Overall, Sawyer's philosophy of internal auditing has not changed from his earliest writings to the latest. It has always been about internal controls and focused around management and their functions of planning, organizing, directing and controlling. Sawyer's writings have always included salesmanship and getting along with people. Asking questions, gathering evidence, and accurate reporting of the results,

⁹⁵ Sawyer, "An Internal Audit Philosophy," p. 55, and Sawyer and Vinten, The Manager and the Internal Auditor: Partners for Profit, p. 10.

⁹⁶ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 368.

⁹⁷ Sawyer and Vinten, The Manager and the Internal Auditor: Partners for Profit, p. 18.

⁹⁸ Sawyer, "An Internal Audit Philosophy," p. 55.

based on management's objectives, have been consistently represented in Sawyer's writings. Improving the operations of the organization and improving the status of the profession have also been continual themes.

There have been some slight variations in his descriptions of internal auditing, as Sawyer discussed in one of his journal articles. When he wrote the Grandfather series, he said that internal auditing was being the eyes and ears of management. But this sounded too much like a spy, he said. "It did not express the high-mindedness of a professional whose purpose was to assist, to counsel, and to teach."⁹⁹ Sawyer modified his definition to "doing what the president would do in appraising his operations if he had the time and if he knew how."¹⁰⁰ But this was not exactly right, because it is not just the president, but every level of management that the internal auditor furnishes with analyses, appraisals, recommendations, information, and above all, counsel.¹⁰¹ In an article published in 1984, Sawyer sees the role of the internal auditor as making management look good. He says this is done while carrying out the functions of identifying weaknesses and making sure they are corrected, resulting in improvement. He says this can be done for operating managers, for executive officers, and boards of directors.¹⁰²

Sawyer might have modified his 'one-liners' over the years, but when one reads his books and articles, he has always included operating management and executive management as being involved with internal auditing services. The change is in including board members as beneficiaries of this service. This was a result of the increase in accountability of board members for the performance of the companies under

⁹⁹ Sawyer, "The Essence of Management-Oriented Internal Auditing," p. 42.

¹⁰⁰ Ibid.

¹⁰¹ Ibid.

¹⁰² Ibid., p. 43.

their direction.¹⁰³ The profession recognized that the directors, especially audit committee members, needed information on the quality of performance and effectiveness of internal control systems to carry out their responsibility. The professional standards for the practice of internal auditing were written with the view that internal auditors could supply this information for both management and the board of directors.¹⁰⁴ The standards were written in 1978. Sawyer began including references to the board of directors in 1978 in journal articles that he wrote and also in the next edition of his book The Practice, in 1981. This modification to include the board of directors is the only change noted in Sawyer's philosophy.

Comparison to the Internal Auditing Profession Timeline

Sawyer's philosophy of internal auditing is compared to a timeline of professional publications and events to evaluate the effect that his writings may have had on the profession of internal auditing. This timeline, included as Appendix K, was borrowed from the Institute of Internal Auditor's website and was modified with information from Dale L. Flesher's history of the Institute of Internal Auditors, 60 Years of Progress Through Sharing.

Per review of the timeline, the significant books written on internal auditing prior to Sawyer's were Internal Auditing by Victor Z. Brink, published in 1941 and Operational Auditing Handbook, by Bradford Cadmus, published in 1964. Sawyer's writings will be compared to these publications to determine the originality of Sawyer's ideas. The only significant professional pronouncements before the writings of Sawyer

¹⁰³ Sawyer, The Practice of Modern Internal Auditing, p. 812.

¹⁰⁴ Ibid., p. 811.

were the Statement of Responsibilities and the Common Body of Knowledge. Written in 1947, and revised in 1957 and 1971, The Statement of Responsibilities of Internal Auditing defines the profession of internal auditing. The Common Body of Knowledge was issued in 1972. It contains the knowledge that the Institute of Internal Auditors (IIA) members considered necessary for a certified internal auditor. It was used to design the Certified Internal Auditor (CIA) examination.

Sawyer's career as a writer spanned 35 years, from 1964 to 1999. The ideas comprised in his philosophy can be traced back to his book The Practice, published in 1973. Items on the timeline occurring after that time could possibly be attributed to the influence of Sawyer's writings. These items consist of revisions to The Statement of Responsibilities of Internal Auditing in 1976, 1981, and 1990, the CIA examination, and the Professional Standards for the Practice of Internal Auditing issued in 1978. If these later professional pronouncements or events reflect the ideas expressed in Sawyer's earlier writings, it will indicate the possibility that Sawyer's philosophy had a significant influence on the profession. If the ideas cannot be found in pronouncements, the ideas will be traced to the most current edition of The Practice which was published after Sawyer's death. This indicates a continuing relevance.

For each of Sawyer's ten maxims, the ideas will be evaluated first for originality, then for influence and relevance. At the end of the discussion an overall conclusion will be drawn as to the effect on the profession of Sawyer's philosophy.

Internal Auditing Defined

Brink wrote that internal auditors were concerned with accounting verification, compliance with company policies, appraisal of internal control for improvements, and

appraisal of processes for improvement that could benefit the general welfare of the company.¹⁰⁵ Brink described internal auditing as a service to management.¹⁰⁶

Audits of special departments were described as a constructive service, whereby work phases were studied and best practices developed.¹⁰⁷ In these audits of operating departments, the internal auditor's main contribution would be in the analysis of accounting data as that was his primary field of effort. Any other aspects will be of an incidental nature.¹⁰⁸ Constructive suggestions would come mainly in the area of accounting and finance but it was considered possible to be helpful in other areas of the company's operations.¹⁰⁹ Special management assignments (consulting) were possible and recommended by Brink to give the internal auditor a management viewpoint, and broaden the basis for future service.¹¹⁰

Improvement was a goal for internal auditors even in 1941 and internal auditing was seen then as a service to management which could include operational type auditing and consulting even though the main focus at that time was accounting information.

In the 1957 revision of the IIA's Statement of Responsibilities for Internal Auditors, the audit scope was extended to any phase of business wherein the internal auditor could serve management. Internal audit was not limited to accounting or financial activities only.¹¹¹ Internal audit was defined as assisting managers in the

¹⁰⁵ Victor Z. Brink, Internal Auditing: Its Nature and Function and Methods of Procedure (New York, New York: The Ronald Press Company, 1941), p 95-96.

¹⁰⁶ Ibid., p. 35.

¹⁰⁷ Ibid., p. 378.

¹⁰⁸ Ibid., p. 374.

¹⁰⁹ Ibid., p. 31.

¹¹⁰ Ibid., p. 391.

¹¹¹ Bradford Cadmus, Operational Auditing Handbook (New York, New York: Institute of Internal Auditors, 1964), p. 5.

effective discharge of their responsibilities through analyses, appraisals, recommendations, and pertinent comments about the activities reviewed.¹¹²

Cadmus wrote that operational auditing involves thinking like a manager. It is doing things that managers would be doing if they had the time. In appraising operations the internal auditors ask themselves what they would do if they owned the business.¹¹³ It is a constructive approach with the goal being improved effectiveness and efficiency.¹¹⁴ The objective is to assist management at all levels.¹¹⁵ Cadmus advises internal auditors to make no criticism without a recommendation for improved operations.¹¹⁶ The internal auditor is responsible for appraisal of reports, policies and procedures, records and standards. It begins with the accounting records, not because they are the primary concern, but because management needs to be able to rely on that information.¹¹⁷ It should not consist only of verifying accounting accuracy.¹¹⁸ The goal is improved operations.¹¹⁹ The report should stress the items that will improve operations.¹²⁰ Examples of the broad range of business activities that lend themselves to this constructive auditing approach are discussed and some could be called consulting type engagements.¹²¹ The management-focused audit philosophy stressing improvement did not originate with Sawyer. Perhaps Sawyer's writings helped to establish the ideas within the profession.

¹¹² Ibid.

¹¹³ Ibid., p. 8-9.

¹¹⁴ Ibid., p. 14.

¹¹⁵ Ibid., p. 15.

¹¹⁶ Ibid., p. 32.

¹¹⁷ Ibid., p. 18.

¹¹⁸ Ibid., p. 24.

¹¹⁹ Ibid., p. 19.

¹²⁰ Ibid., p. 32.

¹²¹ Ibid., p. 461.

Internal auditing in the 1978 Standards for the Professional Practice of Internal Auditing is described as an appraisal function and consists of examination and evaluation of an organization's activities. The purpose is to help the management and the board of directors effectively discharge their responsibilities. The internal auditor does this by supplying information, analysis, appraisal, recommendation, and council about the effectiveness and adequacy of internal control and the quality of performance.¹²²

Quality of performance refers to the degree to which the goals and objectives of the organization are achieved. Internal control includes methods to insure reliable information, compliance with plans, policies, procedures, laws, and regulations, protection of assets, efficient use of resources, and attainment of objectives and goals.¹²³

The 1971 and later Statements of Responsibilities are consistent with the above description from the standards. The 1990 version of the statement includes specific references to the board of directors as well as management.

Sawyer's definition of internal auditing was envisioned by both Brink and Cadmus. Therefore, his writings did not represent original ideas that were new to the profession. The ideas were explained and promoted by Sawyer's writings. In this way he could help to convert the profession of internal auditing to the operational approach. His writings were consistent with the Statement of Responsibilities and the professional standards. His ideas represented the accepted definition of internal auditing until July 1999. At that time the profession adopted a new definition as follows:

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

¹²² Sawyer, The Practice of Modern Internal Auditing, p. 811.

¹²³ Ibid., p. 820.

systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.¹²⁴

As this definition shows, Sawyer's first maxim, focused on improvement, his definition of internal auditing, and theory that it should include consulting type work, are very much still relevant to today's internal auditing profession.

Status in the Organization

Brink wrote that it was essential that the internal auditing department have a suitable status within the organization. This status would give the auditors an independence from the activities that they review. Independence is necessary to be able to criticize the activity¹²⁵ This independence is made possible if the internal audit director reports to someone at the executive level.¹²⁶

Cadmus quoted the Statement of Responsibilities on status within the organization. It and management support were said to be the main determinants of the range and value of the services provided by internal auditing. The Statement of Responsibilities said that the internal audit director should report to a level high enough in the organization to insure a broad scope of activities and action on recommendations. Also it was stated that internal auditing should be able to appraise all operating departments. Cadmus noted that high organizational status and unquestioned support of top management are essential.

Sawyer was not the first writer to acknowledge the essential nature of an organizational status that will permit independence or that management support is also

¹²⁴ Lawrence B. Sawyer, Mortimer A. Dittenhofer, and James H. Scheiner, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, (Altamonte Springs, Florida: Institute of Internal Auditors, 2003), p.

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¹²⁵ Brink, p. 45.

¹²⁶ Ibid., p. 48.

essential to an effective internal audit department. The above referenced ideas from the Statement of Responsibilities were not changed in later editions. These lines from the Statement of Responsibilities were included as the first items in the professional standards when they were written in 1978.¹²⁷ The statements remain in the standards and are still relevant today.

Objective-Based Auditing

Cadmus writes that operational auditing begins with a clear understanding of management's objectives.¹²⁸ The first step is a familiarization with the objectives, how management accomplishes them, and how it measures success.¹²⁹ Knowledge of objectives and controls is essential¹³⁰ Without this knowledge it is impossible to make an intelligent audit.¹³¹ Cadmus writes that the internal auditor cannot appraise controls unless he knows what is being controlled (referring to objectives).¹³²

The professional standards require analysis of objectives when evaluating internal control. The system of internal control should insure that the organization's objectives are met efficiently and economically.¹³³ Management is responsible for setting objectives, implementing controls, and accomplishing results. Internal auditors must determine if objectives of an activity are consistent with those of the organization and determine if objectives are being met.¹³⁴

Sawyer included objectives in his philosophy for the same reasons as Cadmus did.

It is essential to management-oriented auditing to begin with what is important to

¹²⁷ Sawyer, p. 813.

¹²⁸ Cadmus, p. 15.

¹²⁹ Ibid., p. 25.

¹³⁰ Ibid., p. 28.

¹³¹ Ibid., p. 28.

¹³² Ibid., p. 26.

¹³³ Sawyer, p. 819.

¹³⁴ Sawyer, p. 821.

management. Although this is not a new idea for Sawyer, his writings give specific examples of how objectives relate to controls, and how to test the controls, giving a clear path from the objectives to actual procedures. This maxim is still relevant to the profession, as can be seen by reference to objectives in the standards.

Selling Audit Services

Cadmus wrote that recommendations must be sold to management by showing how the improvement will increase profits or protect the business.¹³⁵ Brink said that to get acceptance of new ideas and improvements, the internal auditor must be something of a salesman. This is so important that he said the work and influence of the department would be limited and effectiveness destroyed without this quality.¹³⁶

The idea that salesmanship was a skill needed by the internal auditor was not new when Sawyer included it in The Practice. However, he developed that idea and applied it in new ways that were not included in the writings of the earlier authors. This topic was not included in the professional standards specifically, although the standards do require knowledge of human relations and communications. Likewise, it is not specifically included in the Common Body of Knowledge or the CIA examination material. However, Sawyer's ideas regarding salesmanship are still relevant as they were not deleted in subsequent editions of his book. In the latest edition, published after Sawyer's death, the ideas on selling the audit report and selling the services of the internal audit department are included.¹³⁷ The art of persuasion is important to internal auditing and

¹³⁵ Cadmus, p. 465.

¹³⁶ Brink, p. 60.

¹³⁷ Sawyer, Dittenhofer, and Scheiner, p. 992, 860, and 692.

was the topic of a special research study conducted by the IIA Research Foundation in 1988, entitled *Persuasion and Negotiation Skills for Internal Auditors*.¹³⁸

Management Principles

Any discussion of management principles is lacking in the writings of the early authors. Brink described audit activities that were mostly accounting related. Cadmus writes about the operational audit and does include the assessment of organization as part of internal control. This is limited to the authorization of transactions and who is responsible for procedures.¹³⁹ Brink discusses considerations in auditing the accuracy of a budget (which falls under the management function of planning).¹⁴⁰ Both authors discuss internal control, but without referring to the functions of management or management principles.

Brink later wrote a research report entitled “The Internal Auditor’s Review of Organizational Control”. This was in 1972 before Sawyer published his book The Practice. It could have been the source of Sawyer’s idea of basing the management-oriented audit around the principles of management.¹⁴¹

Sawyer’s writings on the violation of principles of management being the root cause of all deficiency findings are a unique contribution. Also no other author related the principles of management and the four functions of planning, organizing, directing, and controlling to the entire operational audit, from planning to reporting.

An understanding of management principles was considered important to the profession prior to Sawyer’s writings. In 1972 the Common Body of Knowledge was

¹³⁸ Dale L. Flesher, The Institute of Internal Auditors: 50 Years of Progress through Sharing (Altamonte Springs, Florida: The Institute of Internal Auditors, 1991), p. 136.

¹³⁹ Cadmus, p. 10.

¹⁴⁰ Brink, p. 372-377.

¹⁴¹ Flesher, p. 130.

published. This was the result of a survey of members of the profession to determine what knowledge should be necessary for certification. Business management was one of the areas of general business knowledge necessary for the CIA.

The results of this study were used to design the CIA examination which included four parts. Part three consists of the principles of management. Questions deal with the nature of management and the management processes of planning, organizing, directing, and controlling.¹⁴² Today's CIA examination includes information technology along with management principles in part three.¹⁴³

The first CIA examination was given in 1974. Sawyer worked on the board that was responsible for the CIA examination in 1975. He also helped to write study materials for candidates' use in reviewing for the examination. These materials were published in 1974. Sawyer first wrote about the principles of management in his book The Practice published in 1973. The emphasis on management in the CIA examination came from the rating of various subjects provided by the survey of IIA members for the Common Body of Knowledge. Therefore it is unlikely that Sawyer's writings had much impact on the CIA examination.

The professional standards require an understanding of management principles to recognize and evaluate the importance of deviations from good business practice.¹⁴⁴ The first Statement on Internal Auditing Standard was issued in 1983 on the subject of internal control. Adequate control is present when management has planned, organized and directed activities in a manner that provides reasonable assurance that the

¹⁴² Sawyer, The Practice of Modern Internal Auditing, p. 33.

¹⁴³ Sawyer, Dittenhofer, and Scheiner, p. 29.

¹⁴⁴ Sawyer, The Practice of Modern Internal Auditing, p. 817.

organization's goals and objectives will be met efficiently.¹⁴⁵ Internal auditors are to examine and evaluate these management processes.¹⁴⁶

Sawyer's writings on the principles of management are still relevant. His ideas can be traced to the latest edition of his book, in addition to the professional standards and the CIA examination. In the 2003 edition of The Practice, the management functions are discussed in relation to counseling management with problems by suggesting improvements, to the evaluation of control, to the preliminary survey, to fieldwork for an operational audit, and to summary reporting to executive management and the board of directors.¹⁴⁷

Evidence

Brink had this same idea in 1941 about verifying what someone says before relying on it as evidence. He wrote that there may be opportunity to ask different individuals the same question and compare their answers.¹⁴⁸ Sawyer may have used this simple statement to develop his writings on evidence using his knowledge as an attorney. In his book The Practice, Sawyer explains the legal concepts of evidence. Although it is not new information, Sawyer brings it together and explains it well. The professional standards specify evidence should be sufficient, competent, relevant and useful. This is further explained as factual, convincing, reliable, and the best evidence available.¹⁴⁹ Sawyer's advice is still applicable for an internal auditor to fully comply with the standards.

¹⁴⁵ Lawrence B. Sawyer and Mortimer A. Dittenhofer, *Sawyer's Internal Auditing: The Practice of Modern Internal Auditing* (Altamonte Springs, Florida: The Institute of Internal Auditors, 1996), p. 1389-1390.

¹⁴⁶ *Ibid.*, p. 1392.

¹⁴⁷ *Ibid.*, p. 1061-1099, 99-101, 194, 301-302, and 825.

¹⁴⁸ Brink, p. 97.

¹⁴⁹ Sawyer, p. 822.

Questioning the Manager

Cadmus wrote about questioning the manager in his book on operational auditing. It is a step in the familiarization process now called the preliminary survey. It is the best way to find out about problems the manager is having.¹⁵⁰ It is the best way to determine how the manager controls the operation.¹⁵¹ Sawyer's philosophy on what is most important to modern management-oriented auditing would have to include discussions with management to determine what is important to them. It is not an original idea but one that cannot be excluded and is obviously still relevant to any audit or consulting activity.

The standards specify in planning, that the internal auditor should communicate with all those who need to know about the audit and invite auditee comments and suggestions. Statement on Internal Auditing Standards number 12 on planning was issued in 1992. It requires meeting with management to discuss planning the audit and includes discussion of any changes, management concerns, and management requests. It requires a survey which should include discussion with the auditee and individuals affected by the activity. The purpose includes documentation of controls and gaining an understanding of activities.¹⁵²

Politics and Culture

Neither Brink nor Cadmus wrote about these topics. Each of these authors wrote about specific types of audits and their focus was not on behavioral issues. Sawyer was not the first author to write of the importance of these topics to internal auditing. An article was published in the Internal Auditor in 1988 on political skills being needed by

¹⁵⁰ Cadmus, p. 26.

¹⁵¹ Ibid., p. 27.

¹⁵² Sawyer and Dittenhofer, p. 1399-1401.

the internal audit director.¹⁵³ Culture was included in a book written in 1989 on audit management.¹⁵⁴ These topics are not included in the professional standards or on the CIA examination. This knowledge is learned from the human experience of dealing with people. That is the contribution Sawyer made in this area. He applied the topics to internal auditing with specific examples from his own experiences.

The topic is relevant to today's internal auditing profession as it is included in the most recent edition of his book. In discussion on risk assessment, corporate culture is said to be a consideration.¹⁵⁵ Culture and politics are necessary considerations to maintain stability in the internal auditing department and avoid outsourcing.¹⁵⁶ The internal auditor's role in establishing and maintaining a culture that values ethics is discussed.¹⁵⁷ Culture is a consideration in evaluating the risk of employee or management fraud.¹⁵⁸

Accurate Reporting

Internal auditors have probably always realized the importance of accurate reporting. Brink wrote that extreme care must be used to see that reports conform to established standards. Facts must be accurate and supportable. The information should be traced back to the working papers during review. The reason is that that reports are going to a higher authority.¹⁵⁹ "Nothing can be quite so embarrassing to the department as to discover that the statements made are not based on proper evidence or investigation and that it must admit to management the inaccuracy of the material originally

¹⁵³ Sawyer, Dittenhofer, and Scheiner, p. 914.

¹⁵⁴ Sawyer, "The Political Side of Internal Auditing," p. 28.

¹⁵⁵ Sawyer, Dittenhofer, and Scheiner, p. 127.

¹⁵⁶ Ibid., p. 870.

¹⁵⁷ Ibid., p. 935.

¹⁵⁸ Ibid., p. 1166.

¹⁵⁹ Brink, p. 55

submitted.”¹⁶⁰ On balanced reporting, Brink suggests that efficient operations may be reported in order to extend those results to other areas or to change company policy.¹⁶¹

Sawyer’s writings on the topic of reporting were not new and original. However, the subject is important and should be included in a philosophy on internal auditing. Sawyer brought together many useful resources on the topic in his book The Practice.

Of course this is relevant today. It seems to be an obvious point. The professional standards specify that reports should be accurate.¹⁶² The standards do not require but rather permit the inclusion of positive statements, recommendations for improvement, and statements that corrective action has been taken, all ideas expressed in Sawyer’s writings.¹⁶³ This indicates a continuing relevance.

Professionalism

Sawyer’s last maxim was that things will go wrong. Whenever this happens the internal auditors can still feel good about themselves if they have conducted themselves and their audits in a professional manner. Professionalism is the topic of the next chapter and will be discussed in detail there. Sawyer felt that following his philosophy on internal auditing would result in a professional audit. In other words, following maxims one through nine will help the auditor deal with problems that are bound to arise, which is maxim number ten.

Of the other nine items discussed above, the idea that a deficiency is always caused by a violation of a management principle seems to be Sawyer’s original contribution. Applying the management functions of planning, organizing, and directing

¹⁶⁰ Ibid., p. 415.

¹⁶¹ Ibid., p. 414.

¹⁶² Sawyer, The Practice of Modern Internal Auditing, p. 817.

¹⁶³ Ibid., p. 823.

to the audit process is also somewhat original. The profession had realized the importance of the internal auditor knowing management principles, as evidenced by the Common Body of Knowledge. The other ideas expressed are important, but were ideas found in the writings of others.

Sawyer's philosophy on internal auditing, represented by his ten maxims, have continued relevance to the practice of internal auditing today as the ideas can be traced to the professional standards or current literature. Sawyer's writings promoted the ideas of others. He brought information together for the reader and illustrated specific examples of applications to the practice of internal auditing. This was his contribution. It is impossible to directly measure the effect of his writings on the internal audit profession. One can indirectly attribute some influence to his book The Practice that has been so successful that it continues after his death. The number of journal articles published related to philosophy, spanning a number of years, would not have continued if Sawyer were not considered influential, and the messages not considered to be effectual.

CHAPTER VIII

THE PROFESSIONALISM OF INTERNAL AUDITING

Many of the writings of Lawrence B. Sawyer were on the topic of the profession of internal auditing. The development of the profession, what was still needed in the internal auditing profession, doing professional work, and the qualities of the professional internal auditor are included in his articles. A listing of articles with a brief description of each is included in Table 14.

Sawyer's book The Practice of Modern Internal Auditing: Appraising Operations for Management, (The Practice) includes a discussion of the statement of responsibilities, the professional standards, the code of ethics, and quality assurance. Some topics pertain to internal auditing as a professional career. Other topics pertain to the internal auditing director and the administration of a professional internal auditing department. Internal Auditor's Handbook (The Handbook) was written by Paul E. Heeschen and Sawyer. It is a reference book containing example forms, documents, reports, and checklists helpful in administration.

Sawyer's writings on the topic of professionalism are summarized and analyzed for consistency. The ideas are compared to an internal auditing timeline for originality. Obtained from the Institute of Internal Auditors (IIA), it contains publications and happenings in the profession by year. From this a conclusion may be reached as to the contribution Sawyer made through his writings on the topic of professionalism.

Table 14

List of Journal Articles
Title and Contents on the Subject of
The Professionalism of Internal Auditing

“A Learned Profession,” (August 1999) – Certification is the hallmark of a profession giving prestige, validation and professional identification. A learned profession is different than a trade or skill. Certification sets it apart from a craft. A professional examination that is rigorous and comprehensive results in respect and relevance.

“A Mini-History of the Standards,” (June 1988) – Sawyer chronicles the work that went into getting the standards drafted and adopted.

“An Internal Audit Philosophy,” (August 1995) – Sawyer discusses his philosophy which includes organizational status. It is an attribute that gives the internal auditor independence from the operations being reviewed.

“Internal Auditing: Practice and Professionalism,” (June 1991) – Internal audit has gained legitimacy as a profession with standards, certification, a professional organization, statement of responsibilities, and a code of ethics.

“Internal Auditing, Yesterday, Today, and Tomorrow,” (December 1979) – A profession needs to be recognized as such by the general public, students, academics, management and board members. Sawyer discusses how internal auditing is different from external auditing.

“Modern Internal Auditing – The New Profession,” (January 1975) – Sawyer describes the new profession, gives evidence of its growth, and tells what he thinks is still needed.

“Observations on the 1971 Revision of the Statement of Responsibilities of the Internal Auditor,” (September/October 1971) – The changes in the statement over the years are described along with the 1971 revision.

“Professionalism in Internal Auditing,” (January/February 1976) – The characteristics that define a true professional are discussed. This includes orienting the new staff member to thinking like a professional, dealing with people, writing reports, and above all being dedicated.

“Reflections on a Half Century of Internal Auditor,” (August 1993) – Sawyer gives his feelings on changes in the professional journal. He said the journal reflects a change in the profession from verifier of facts to problem-solving partner with management.

“The Genesis of the CIA Examination,” (August 1989) – The history of the exam is provided, including comments on assembling the questions, and grading the exam.

“The Leadership Side of Internal Auditing,” (August 1990) – Internal Auditors need the same qualities that make a good leader: intelligence, emotional maturity, initiative, communicative skills, confidence, perceptiveness and creativity.

“Tomorrow’s Internal Auditor,” (June 1978) – For recognition as a profession, internal audit services must add value. More education is needed for college students to recognize internal audit as a career choice.

“Why internal auditing?” (December 1993) – Discusses what makes a professional internal auditor: certification, belonging to a professional organization, and abiding by the standards for their profession.

Internal Auditing – A Professional Activity

The first edition of Sawyer's book The Practice was published before there was a certification program and professional standards. At that time, those who did internal auditing work were often called practitioners by Sawyer, and the work he called the practice of internal auditing.¹ Sawyer used the term professional to refer to the quality of the work product more than the person.² He referred to internal auditing as a professional activity, the purpose of which is to make professional judgments. "It therefore demands the highest type of judicial detachment, integrity, and objectivity. These attributes atrophy in the absence of practical independence."³ Therefore, from the beginning of his writings, professionalism for Sawyer was having an objective attitude and an independent reporting status. This was consistent with the Statement of Responsibilities first issued in 1947.⁴

Sawyer wrote that there must be technical ability to get the audit job done professionally. Modern internal auditing can only be accomplished by the best auditors and the highest level of audit effort.⁵ He wrote that management should come to expect a high level of professionalism in audits and in the auditor's reports. Each audit should be thorough and sound and each report should be of professional quality in terms of both form and substance.⁶

¹ Lawrence B. Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management (New York, New York: Institute of Internal Auditors, 1973), p. x.

² *Ibid.*, p. viii.

³ *Ibid.*, p. 4.

⁴ Victor Z. Brink, Foundations for Unlimited Horizons. The Institute of Internal Auditors, 1941-1976 (Altamonte Springs, Florida: Institute of Internal Auditors, 1977), p. 165.

⁵ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 8.

⁶ *Ibid.*, p. 20.

Evidence of an Emerging Profession

The start of internal auditing as a profession was its emergence as a separate discipline, different from accounting and serving different purposes than public accounting. Sawyer wrote about the steps taken toward true professional status including the formation of a professional organization, issuance of a formal definition of responsibilities, adoption of a code of ethical behavior, establishment of an examination and certification program, and issuance of professional standards. He also wrote about what was still needed, a course of study leading to a degree in internal auditing and recognition.

The Institute of Internal Auditors

In the words of Robert B. Milne, in 1945, IIA was formed in 1941 to develop the true professional status of internal auditing.⁷ This was the first major step toward professionalism. Sawyer wrote in The Practice that the IIA, as any professional organization, is the key provider of continuing education. Its technical publication, The Internal Auditor, is a primary source. He also mentions the results of research conducted and the seminars and study courses provided by the IIA as sources of education. He encouraged readers to be active in their local chapters, to get information from the speakers, and from discussion with other members. He encouraged working in a committee or as an officer in their local chapters, to build leadership qualities.⁸

⁷ Dale L. Flesher, The Institute of Internal Auditors: 50 Years of Progress through Sharing (Altamonte Springs, Florida: The Institute of Internal Auditors, 1991), p. ix.

⁸ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 56.

The Statement of Responsibilities of Internal Auditors

This statement defined the profession of internal auditing with functions and responsibilities. It was intended to be a general rather than detailed listing of responsibilities because the profession was so young. Also it was to be an ideal to work towards rather than description of current practice, to lift the standard of practice.⁹ It consists of a definition, a listing of activities, a statement about the scope and responsibilities, and several paragraphs on independence. The foreword specified that changes may be needed in the future because the profession was evolving constantly.¹⁰ The statement has in fact been revised several times over the years.

In an article published in 1971, Sawyer describes the changes that had been made to the Statement of Responsibilities in 1971. He wrote that the changes were evidence of the progression that had occurred in the profession. Internal auditors were providing new services to management. The profession had to keep up with the changes in technology and in management thinking. Sawyer understood the revisions well as he was the chairman of the committee responsible for some of the changes.¹¹

The statement had been reworded to remove emphasis on the internal auditor's review of accounting and financial information. Instead the statement emphasized review of all operations. He writes "The change symbolizes the internal auditor's concern – with every significant aspect of the organization's activities."¹² Sawyer pointed out that operations include accounting and financial matters and that these areas were still concerns for internal auditors. He saw this change in the statement as reflecting the

⁹ Flesher, p. 20.

¹⁰ Ibid., p. 22.

¹¹ Lawrence B. Sawyer, "Observations on the 1971 Revision of the Statement of Responsibilities of the Internal Auditor," The Internal Auditor (September/October 1971), p. 8.

¹² Ibid., p. 9.

expanded scope that had occurred in the profession since the 1940's.¹³ He wrote that the statement was a reflection of what was being practiced by the most advanced members of the profession.¹⁴

There were some changes made that Sawyer said indicated internal auditors were thinking like managers. For example a sentence was added stating that the internal auditor's concern should go beyond the accounting to obtain a full understanding of the operation under review. Sawyer pointed out that this meant looking at the accounting and financial records from the manager's point of view. The words "accounting and financial data", were replaced with "management data", again stressing the broader view of the management-oriented auditor.¹⁵

A new activity was stated, recommending improvements in operations. To do this, internal auditors must think like managers. The original statement had required internal auditors to point out deficiencies as a basis for corrective action.¹⁶ Sawyer points out that the revised statement requires recommending. It does not mean that the internal auditor should direct, or actually make the improvement. Thinking like a manager does not include taking over the duties of a manager. Like a manager, internal auditors should consider internal controls in relation to the objectives they seek to accomplish. The statement included consideration of the cost of control along with its intended benefit.¹⁷

Sawyer included the Statement of Responsibilities as an appendix to his first book, The Practice. In subsequent editions, it is included in the text with several pages of

¹³ Ibid., p. 9.

¹⁴ Ibid., p. 11.

¹⁵ Ibid., p. 10.

¹⁶ Flesher, p. 22.

¹⁷ Sawyer, "Observations on the 1971 Revision of the Statement of Responsibilities of the Internal Auditor," p. 9-10.

explanation.¹⁸ An orientation program for new auditors should include review of the Statement of Responsibilities according to the Internal Auditor's Handbook.¹⁹ Numerous references are made in describing the internal auditor's responsibilities in the book The Manager and the Modern Internal Auditor.²⁰

The Statement of Responsibilities was important because it defined the profession and its responsibilities until the professional standards were issued in 1978. The professional standards included more detail and guidance making the Statement of Responsibilities subordinate. The statement was changed in 1981 to make it consistent with the standards in requiring service to the board of directors as well as management.²¹ Other changes include a responsibility to serve in the role of counselor, something Sawyer always championed. The professional standards were changed in 2002 to incorporate the Statement of Responsibilities and it was eliminated as a separate pronouncement.²²

The Code of Ethics

The Code of Ethics was adopted in 1968. It outlines professional behavior that members of the profession should maintain including competence, morality, and dignity, honesty, objectivity, diligence and loyalty to their employers. They are to avoid conflicts

¹⁸ Lawrence B. Sawyer, The Practice of Modern Internal Auditing, (Altamonte Springs, Florida: Institute of Internal Auditors, 1981), p. 20-24.

¹⁹ Paul E. Heeschen, and Lawrence B. Sawyer, Internal Auditor's Handbook (Altamonte Springs, Florida: The Institute of Internal Auditors, 1984), p. 93.

²⁰ Lawrence B. Sawyer, The Manager and the Modern Internal Auditor: A Problem-Solving Partnership (New York, New York: American Management Association, 1979), p. 464.

²¹ Lawrence B. Sawyer, "Internal Auditing: Practice and Professionalism," Internal Auditor (June 1991), p. 39.

²² Lawrence B. Sawyer, Mortimer A. Dittenhofer and James H. Scheiner, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing (Altamonte Springs, Florida: Institute of Internal Auditing, 2003), p. 13.

of interest, accept no gifts without senior management's knowledge, keep information confidential, support opinions with facts, reveal all material facts known, and seek self-improvement.²³

Sawyer and Dittenhofer felt strongly about the avoidance of conflicts of interest, because of appearances. They wrote that objectivity is so important to the reputation of the internal auditor that there should not be as much as a hint that it is compromised.²⁴

Sawyer and Dittenhofer also stressed loyalty to the employer. They saw internal auditors as members of the management team and wrote that they should act as senior managers would. There is one exception; the internal auditor cannot knowingly be a part of any illegal activity. Even in this situation loyalty is upheld as the internal auditor is advised to notify authorities within the company. They have no responsibility to report to those outside the company unless compelled to by law.²⁵

The Statement of Responsibilities and the professional standards included a statement that members of the profession were to abide by the Code of Ethics. Sawyer and Dittenhofer wrote that a code of ethics, enforced by a professional body added validity to the claim of professionalism.²⁶ However Sawyer wrote that enforcement is lacking in the profession of internal auditing. No license is required to practice internal auditing. There is nothing to prevent anyone from being hired as an internal auditor.²⁷ Only those who elect to become certified take an oath to abide by the code of professional ethics.²⁸

²³ Sawyer, The Practice of Modern Internal Auditing, p. 24.

²⁴ Lawrence B. Sawyer and Mortimer A. Dittenhofer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing (Altamonte Springs, Florida: The Institute of Internal Auditors, 1996), p. 28.

²⁵ *Ibid.*, p. 29.

²⁶ *Ibid.*, p. 28.

²⁷ Lawrence B. Sawyer, "Why Internal Auditing," Internal Auditor (December 1993), p. 45.

²⁸ Sawyer, The Practice of Modern Internal Auditing, p. 28.

Even though the Code of Ethics is only binding to IIA members and CIAs, Sawyer thought it had special significance to all internal auditors because it requires honesty and objectivity. He wrote

Management must rest assured that it can trust its internal auditors implicitly. Management must have the secure feeling that if its internal auditors report something then it just has to be true. It has to be valid. It has to be objective. It has to be completely without bias.²⁹

Sawyer included the Code of Ethics in the appendix of his first book, The Practice. In subsequent editions, it was included with explanation in the text.³⁰ The code was included in the example orientation program for new internal auditors in The Handbook.³¹

Sawyer explained why a code of conduct is one of the characteristics of a profession in an article entitled “Why Internal Auditing”. He wrote that the professional must subscribe to certain moral values. Internal auditors have a Code of Ethics for that purpose. A code of conduct is needed because of the vulnerability of the public that is being served. The clients are vulnerable in that they must trust the professional to help with their problems in an objective manner in confidence. They also must trust that the professional has acquired the competence needed. This involves specialized knowledge that the client does not have.³² The Code of Ethics then is a set of moral values necessary to protect the interest of those being served by internal auditors.

²⁹ Ibid., p. 28.

³⁰ Ibid., p. 24-28.

³¹ Heeschen and Sawyer, p. 93.

³² Sawyer, “Why Internal Auditing,” p. 44.

The Certification Program

Sawyer wrote about the characteristics of a profession because he wanted to distinguish internal auditing from external auditing and from accounting. Some of the characteristics include the following. The job must be technically difficult. There must be special knowledge attained through long training and study. Competence is proved by examination.³³ And only those who have passed and earned certification can truly claim professional status.³⁴

The first step in starting a certification program was to determine what should be the standard knowledge needed by a professional internal auditor. A survey of members was conducted for this purpose and the result was called the Common Body of Knowledge. This was to be the standard for testing competence of those wanting to enter the profession.³⁵ It included a broad range of knowledge in the areas of accounting, finance, auditing, behavioral science, communications, computer systems, economics, business law, quantitative methods, and control systems.³⁶

The Common Body of Knowledge was adopted and the certification program approved in 1972. The first Board of Regents (the board) was appointed in April of 1973, and began work on the first examination.³⁷ The first task was to classify items from the Common Body of Knowledge into the four sections of the examination and

³³ Ibid., p. 44.

³⁴ Ibid., p. 45.

³⁵ Sawyer, The Practice of Modern Internal Auditing, p. 28.

³⁶ Ibid., p. 29.

³⁷ Lawrence B. Sawyer and Frederic E. Mints, "The Genesis of the CIA Examination," Internal Auditor (August 1989), p. 15.

consider the relative importance of each item. The next step was to actually write the questions and answers.³⁸

In October of 1973, Sawyer and Frederic Mints agreed to write exam review materials for the first two parts of the exam dealing with theory and practice of internal auditing. They were both members of the board, Sawyer having joined in December 1973.³⁹ They were helping to write the actual exam and writing review materials as well. They had to be careful not to reveal what would actually be on the exam. Mints said that in effect, they had to write a separate complete set of exam questions on their own for the review materials.⁴⁰ Another problem was getting it done in time for candidates to study for the first exam. The general business topics were subcontracted to academic groups. Mints said they worked nights and weekends all through the winter to get the four-volume set published in January and February, 1974.⁴¹

The work of writing the actual exam questions was accomplished on weekends as members of the board were volunteers. Many were working practitioners, with full-time jobs. Sawyer said they met and worked from early morning until late at night. Members would work in teams of two to write questions and answers. The entire group would then review and critique the work of the others.⁴²

The first exam was given in August 1974. Then the board members had the job of grading it. Another duty of a subcommittee of the board was the review and approval of "grandfather status". Based on experience, qualified internal auditors were granted

³⁸ Ibid., p. 16.

³⁹ Ibid., p. 16.

⁴⁰ Ibid., p. 17.

⁴¹ Ibid., p. 17.

⁴² Ibid., p. 16.

certificates without taking the examination. These grandfathers helped to administer the examination. Sawyer said that his certificate was among his most precious possessions.⁴³

Many internal auditors were against the idea of certification. Because the skill was learned in the field, there was a requirement that candidates have three years experience working as an internal auditor (now two years are required). Many felt that they had a good job and did not need certification. An intensive marketing program was undertaken to promote certification. Those who attained certification also gained status and recognition. Fifteen years after the first exam, Mints proclaimed that the credibility and value of the CIA had certainly been established.⁴⁴

Sawyer discussed the success of the program in his book The Practice and gave examples of recognition the CIA is given. He cited some personal benefits such as status and self-confidence to those who become CIAs, in addition to the financial rewards.⁴⁵ Sawyer wrote that the lack of university educational degree programs has made it difficult for internal auditors to prepare for the examination.⁴⁶ He provided a listing of study materials that would be helpful for candidates, example questions, and sources for more information about the exam.⁴⁷

Sawyer wrote that one of the attributes of a profession was a credible and exacting course of study and an examination to certify that individuals have the knowledge. He said the certification program brought legitimacy to the profession. It gives an objective evaluation of a candidate's readiness for the job of internal auditor.⁴⁸ Twenty-five years

⁴³ Ibid., p. 17.

⁴⁴ Ibid., p. 20

⁴⁵ Sawyer, The Practice of Modern Internal Auditing, p. 31.

⁴⁶ Ibid., p. 35.

⁴⁷ Ibid., p. 32-35 and 44.

⁴⁸ Sawyer, "Internal Auditing: Practice and Professionalism," p. 40.

after the first exam, Sawyer wrote that it had validated the status and prestige of the profession. The exam is rigorous and comprehensive, which has resulted in respect and relevance, so that the CIA is a stepping stone to management and related fields. Without certification, internal auditing would be a skill or craft, but not a profession.⁴⁹

Standards for the Professional Practice of Internal Auditing

In The Practice, Sawyer gives a summary of the standards. He felt that the issuance of the standards sent a message to management. Management has the right to choose how the internal audit department should function within their organizations. However, they would not be able to say their internal auditors meet professional standards as long as the auditors continue to be limited to accounting and financial reviews, as long as there are activities the auditors are not allowed to appraise, or if the auditors are reporting to a level of management that renders them powerless. He wrote that external auditors would expect internal audit work to meet the standards. The standards set by a profession are used by the courts as the method of judging the degree of due care exercised by one of its members. He pointed out some difficulties that would have to be worked out, such as limitations of the very small department. However, he wrote that compliance was essential in order to meet the responsibilities one had as an internal auditor and that the standards applied to all internal auditors.⁵⁰ His writings include the following comments:

Those internal auditors who are handicapped by lack of training or shackled by the restrictive rules of their enterprises will simply have to strive harder to meet the standards if they aspire to professionalism. Calling oneself an internal auditor does not in and of itself make one a

⁴⁹ Lawrence B. Sawyer, "A Learned Profession," Internal Auditor (August, 1999), p. 6.

⁵⁰ Sawyer, The Practice of Modern Internal Auditing, p. 40.

professional. A paramedic practices a form of medicine; a paralegal clerk practices a form of law, as does a real estate agent and a notary public. But these people are not professional doctors or lawyers; they are not equipped to render professional judgments and opinions. The same is true of people who claim to be internal auditors, but do not meet the standards and the qualifications set for their profession.⁵¹

Sawyer was asked to join the Professional Standards and Responsibilities Committee in 1975. The committee had been formed in 1974 and had an outline for the framework of the standards when Sawyer came aboard. He and eleven others wrote the standards. They asked members of the IIA to review them. An exposure draft was issued in 1977. This was made available to the public for review. Comments were considered and revisions made. The standards were finally adopted in 1978.⁵²

Sawyer said that the writers of the standards wanted to be helpful and give practitioners procedures as well as standards. The reviewers kept them in line so that the result was principles to go by and not a cookbook, guidance without job instruction. The end result was five general standards, 25 specific standards that pertain to the five basic ones, and then guidelines that provide methods by which the standards can be met.⁵³

Sawyer referred to the standards as the single most significant change in the history of the profession. It provided rules and criteria to help internal auditing emerge as distinctive profession. The standards establish a consistent way to measure audit performance resulting in a unifying force worldwide encouraging improved practice. With standards, internal auditors now have increased responsibility for their actions.

⁵¹ Ibid., p. 47.

⁵² Lawrence B. Sawyer, "A Mini-History of the Standards," Internal Auditor (June 1988), p. 25-26.

⁵³ Ibid., p. 25.

They may be called upon to be more accountable to their organizations and to society as a whole.⁵⁴

The Need for Better Education

Sawyer wrote in The Practice, that education was the first building block leading to professional ability. Education with the basics of accounting theory, some humanities and behavioral science with an emphasis on business administration is recommended by Sawyer. The tools of modern management should be included in this education and include statistics, computer science and mathematics.⁵⁵

Sawyer wrote that internal auditing had achieved professional status with a common body of knowledge, a code of ethics, and professional standards by which to measure the competence of a practitioner.⁵⁶ There was something lacking however, and that was a course of study leading to a degree in internal auditing.⁵⁷

Soon after the first CIA examination, Sawyer wrote an article that was published in The Accounting Review about the new profession of internal auditing. He wrote how it was different from traditional auditing of accounting and finance because it included an appraisal of all operations.⁵⁸ He gave the size of the IIA, estimated number of internal auditors, and number sitting for the certified internal auditor (CIA) examination as evidence of a growing profession. He wrote that the new certificate program was heavily

⁵⁴ Sawyer, "Internal Auditing: Practice and Professionalism," p. 39.

⁵⁵ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 25.

⁵⁶ Sawyer, The Practice of Modern Internal Auditing, p. 18 and 47.

⁵⁷ *Ibid.*, p. 37.

⁵⁸ Lawrence B. Sawyer, "Modern Internal Auditing – The New Profession," The Accounting Review (January 1975), p. 176.

oriented towards management principles and audits of every type of activity within a business.⁵⁹

Knowledge needed for this new profession could be attained by seminars on operational auditing, and evening extension courses, but undergraduate college courses were not meeting the demand. Accounting students were not learning about operational auditing or getting the knowledge in management principles that they needed. Colleges prepared students for public accounting when the majority was more interested in private or governmental accounting. The students rarely learned about modern internal auditing. Sawyer recommended colleges offer more choices in the curriculum and include more management and operational auditing courses.⁶⁰

Sawyer said in another article that the education for the internal auditor was like a patchwork quilt of pieces put together in hopes of covering the needs of the student. What the student needs is an education designed specially for the internal auditor.⁶¹ This would prepare students for taking the CIA examination and for a career in internal auditing. Sawyer proposes a curriculum that would emphasize management principles and concepts and techniques that would be needed to evaluate all activities for management.⁶²

The business community thinks that an accounting degree will suffice. In another article published in 1979, Sawyer pointed out how little accounting is actually emphasized on the CIA examination. Excluding auditing, accounting is only one sixth of one of the four parts, or less than 5%. He said internal auditing is recognized now as a

⁵⁹ Ibid., p. 177.

⁶⁰ Ibid., p. 178.

⁶¹ Lawrence B. Sawyer, "Tomorrow's Internal Auditor," The Internal Auditor (June 1978), p. 15.

⁶² Ibid., p. 15.

separate discipline, but for professional status there needs to be availability of a university degree in internal auditing.⁶³ He also wrote that educators and students did not recognize internal auditing as a vitally needed and exciting profession.⁶⁴

In this same article Sawyer wrote that required continuing education is needed. It is required of other professions and for good reason. Professionals need to keep up with developments to maintain their competence. Sawyer wrote that this was especially true for internal auditing because the profession was developing and “expanding by geometric progression”.⁶⁵ This is not a new topic for Sawyer, continuing education was stressed in his first book, The Practice.⁶⁶

The Need for Recognition

In an article published in 1978 entitled “Tomorrow’s Internal Auditor,” Sawyer explains what he sees as change that is needed to further develop the profession. One of the items is recognition. He writes that internal auditing is a distinctive profession with different purposes and outcomes than external auditing. Both involve auditing but they are very different. He compares the difference to that between a brain surgeon and a proctologist. They are both doctors but with different points of view.⁶⁷ It is interesting that years later, in 1993, there was still a need to define the difference in the two types of auditing. Sawyer explained in more specific terms how internal auditing is different from external auditing by discussing the broadened scope of internal audit work. Also he said

⁶³ Lawrence B. Sawyer, “Yesterday, Today, and Tomorrow,” The Internal Auditor (December 1979), p. 26.

⁶⁴ *Ibid.*, p. 32.

⁶⁵ *Ibid.*, p. 32.

⁶⁶ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 53.

⁶⁷ Sawyer, “Tomorrow’s Internal Auditor,” p. 11.

that internal auditors do more consulting than verifying, and more improving than finding errors.⁶⁸

This difference is not understood by managers, professors, students, or the general public. Without recognition, the profession cannot grow, and customers may go elsewhere to find the services needed. He says internal auditors will lose out to the management consultants and public accounting firms. Some recognition has been gained from the certification program and the professional standards, but Sawyer said it was only a beginning. He wrote that it is up to internal auditors to sell their services. He recommended making presentations to management at all levels about what the new profession can do for them. This included helping them to reduce risks, isolate problems, and help to solve them.⁶⁹

In 1979 Sawyer wrote that there were ten possibilities for the future that would help the profession to grow. Some of the items were already present to some degree, like the certification program, but needed increased prevalence throughout the profession. Some of the items related to recognition by management, as discussed above. In this article he recommended use of participative auditing, giving information, guidance and council instead of criticism, and vice presidential status for the director of internal auditing.⁷⁰ These are included in Table 15 that follows.

⁶⁸ Sawyer, "Why Internal Auditing," p. 44.

⁶⁹ Sawyer, "Tomorrow's Internal Auditor," p. 13.

⁷⁰ Sawyer, "Yesterday, Today, and Tomorrow," p. 26.

Table 15

Sawyer's Ten Possibilities for the Future
(Published in 1979 "Internal Auditing: Yesterday, Today, and Tomorrow")

-
1. A definitive course of study in Internal Auditing (degree).
 2. A demanding world-wide certification program (already had begun).
 3. Requirements for continuing education to maintain knowledge.
 4. Professional recognition by other professional people.
 5. Recognition of responsibility to society as well as the organization.
 6. Realization by students and faculty of opportunities in internal auditing.
 7. Increase in participative auditing where auditor and manager work together.
 8. Partnership with external auditors based upon mutual respect.
 9. Acceptance as a source of information, counsel and guidance by management and directors.
 10. Membership in the top management team with the internal auditing director having vice-president status.
-

The Professional's Relationship with the Client

Sawyer wrote that there is much more to actually being a professional than certification, ethics, and standards. This includes one's relationship with clients, doing professional work, and exhibiting certain characteristics.

Sawyer wrote that there was something missing in the relationship between some internal auditors and personnel being audited. Internal auditors should learn from the other professions of law and medicine how to treat clients and patients. It is not an adversarial relationship. The client or patient trusts, has confidence in, and relies upon the integrity of the professional.⁷¹ Sawyer wrote that like the attorney, the internal auditor gives council and like the physician, he or she writes prescriptions to heal and correct. He says giving guidance and care is the helpful spirit of a professional. In 1976, Sawyer wrote that many internal auditors thought that their client was top management only. The professional would consider operating personnel clients as well, and also offer them council.⁷²

A few years later, in an article on the future of the internal auditing profession, Sawyer writes:

To be able to sway people, to teach them, to influence them, and to get them to trust you, you must understand them. You must be fully aware of the way auditees normally regard auditors, and you must learn how to change their concept of internal auditors and the relationship between auditors and auditees. The desired relationship is not that of adversaries. . . It must be the relationship of one professional to another.⁷³

⁷¹ Lawrence B. Sawyer, "Professionalism in Internal Auditing," (January/February, 1976), p. 15.

⁷² Ibid., p. 16.

⁷³ Sawyer, "Tomorrow's Internal Auditor," p. 13.

Doing Professional Work

The true professional is interested in always doing their best, not cutting corners, not taking the easy way out. Sawyer says:

There is much more to professionalism than belonging to a professional organization and writing initials after your name. Professionalism is a work of high purpose. To me that word shines with the hard white flame of excellence; and the fuel that feeds that flame combines integrity, wisdom, maturity, knowledge, understanding, and craftsmanship.⁷⁴

Sawyer wrote that what makes a professional is an apprenticeship under guidance of teachers who are understanding and have vision. This is to learn the fundamentals of what it takes to turn out a professional job. A professional also has what Sawyer calls an inner monitor like a conscience that will not allow him or her to be associated with shoddy work.⁷⁵

The standards set criteria for quality in internal audit work and in the administration of the internal audit function. Sawyer wrote in 1979 that compliance with the standards was to be tested periodically by peer evaluation and examination by external auditors to insure quality.⁷⁶

Sawyer gives examples of how internal auditors can act in a professional or unprofessional manner in the areas of orientation for new auditors, developing long-range plans, dealing with people, deciding what to audit, developing findings, writing reports, and following up on recommendations. The professional plans an orientation, has a set of guidelines, and a checklist of steps. His or her concern is for teaching the new staff member, understanding how they feel, and making them feel welcome.⁷⁷

⁷⁴ Sawyer, "Professionalism in Internal Auditing," p. 16.

⁷⁵ Ibid., p. 17.

⁷⁶ Sawyer, "Yesterday, Today, and Tomorrow," p. 31.

⁷⁷ Sawyer, "Professionalism in Internal Auditing," p. 17.

In planning, the professional has a structured, disciplined approach that identifies the risk areas and sees that these areas are covered. He or she discusses the plans with management, having fully prepared for the meeting.⁷⁸ The professional has knowledge of management principles and uses a management-oriented approach to auditing. He or she makes a preliminary survey to become familiar with the activity and determine the objectives and controls.⁷⁹

The professional is more concerned about others than himself or herself, because, “This new profession of ours concentrates as much or more on people and management than on numbers and accounts.”⁸⁰ Professional internal auditors have an objective, matter-of-fact manner, are friendly, courteous, and cooperative, and are sincerely interested in helping. This is the aspect that the professions of law and medicine have that works to obtain the trust and and faith of those who need help. Sawyer said it will work for the internal auditor to get trust and cooperation of their clients as well.⁸¹

Sawyer discusses professional work as it pertains to the deficiency findings, reporting the results of an audit, and following up on recommendations.⁸² Being a professional means placing a high regard for excellence, concern for the client, and rejecting anything less, with the same seriousness as would be expected from a doctor or lawyer.⁸³

⁷⁸ Ibid., p. 18.

⁷⁹ Ibid., p. 20.

⁸⁰ Ibid., p. 19.

⁸¹ Ibid., p. 20.

⁸² Ibid., p. 22-24.

⁸³ Ibid., p. 24.

The Qualities of a Professional

In The Practice, Sawyer wrote that modern internal auditing demanded intelligence, technical competence, and the ability to deal with people.⁸⁴ Professional ability and certain qualities of character are necessary including adaptability, understanding, determination, integrity, and imagination.⁸⁵ Sawyer wrote an interesting article later in which he related the characteristics of effective internal auditors with those of successful leaders. These characteristics are intelligence, communication skills, emotional maturity, and creativity. Of course in all his writings the most essential characteristics of professional internal auditors-- integrity, independence, and objectivity-- are stressed.

Essential Characteristics

Integrity is required of any professional. According to Sawyer and Dittenhofer, it is not the work that makes a professional but the spirit in which it is done. There are choices to make between what is right and what is wrong. Professionalism is standing up for what is right even if it means personal loss. In some circumstances it may be impossible for the internal auditor to be a professional and keep his or her job.⁸⁶

Sawyer and Dittenhofer refer to independence as “the central professional attribute”. It allows an objective unrestricted opinion to report things as they are, not as an executive would prefer. There must be no restrictions on what the internal auditor

⁸⁴ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 24.

⁸⁵ *Ibid.*, p. 26.

⁸⁶ Lawrence B. Sawyer and Mortimer A. Dittenhofer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing (Altamonte Spring, Florida: Institute of Internal Auditors, 1996), p. 63.

examines or how the work is done. Only then can internal auditors be regarded as professionals.⁸⁷

Sawyer wrote that when working with management as partners, internal auditors must remember the need for objectivity. The auditor's opinion on adequacy of control and effectiveness of performance must be unbiased. This is a responsibility owed to management. Operating management need reports that are unbiased. Board members need information that is objective because they are responsible to shareholders. In all cases, information must be objective. This comes from being independent from the activities being audited so that there can be no question about the appraisals being impartial.⁸⁸

Qualities of Successful Leaders

The professional internal auditor will possess the qualities of a leader. Thinking like a leader can change the way the internal auditor acts and change the way others perceive the profession. Leaders motivate people to act. They are respected because they see problems as opportunities.⁸⁹ With the right attitude, internal auditors can make improvements and be accepted as equals of senior management. He said "What I can conceive and believe, I can achieve."⁹⁰ According to Sawyer, exhibiting qualities of the leader is a sign of professionalism.

The professional learns about people through preliminary surveys and canny questioning. The professional instills confidence through demeanor, education, experience, and a skillful presentation of the problems that need solving. The professional gains respect by attacking a problem systematically. The professional wins agreement by being willing to work in a problem-solving partnership with others to correct the

⁸⁷ Ibid.

⁸⁸ Ibid., p. 29.

⁸⁹ Lawrence B. Sawyer, "The Leadership Side of Internal Auditing," Internal Auditor (August 1990), p. 16.

⁹⁰ Ibid., p. 24.

problem, giving them the credit for success, and thereby removing one of the more significant causes of irritation. All these call for leadership.⁹¹

The characteristics of a successful leader or internal auditor include intelligence. It is needed to acquire, analyze, and evaluate information. Internal auditors research a subject to be audited to become knowledgeable and determine how the activity interrelates with the organization. Knowledge and experience can give one legitimacy. This is having the ability to do the job, not because of authorization formally given, but because one knows what to do and does it well. A reputation for being competent, fair, and helpful is necessary to earn respect.⁹²

Communication skills include persuasiveness. Internal auditors must be able to listen, ask the right questions, speak and write forcefully, and persuade others to take action. Being able to work well with people is a critical skill. Self-confidence is needed by internal auditors to be able to get people to listen and believe what is being said. With confidence he or she invites management participation in the audit.⁹³

Emotional maturity includes objectivity, dependability and persistence. Objectivity is critical to unbiased, unpressured judgments and honest opinions.⁹⁴ The emotionally mature individual is better able to understand the point of view of those with whom he or she is working. Demonstrating empathy will help to overcome resistance to change and accomplish improvements. Sawyer wrote "Where auditees perceive the internal auditor as being understanding and sympathetic to the day-to-day

⁹¹ Ibid., p. 17.

⁹² Ibid., p. 21.

⁹³ Ibid., p. 20.

⁹⁴ Ibid., p. 18.

problems being faced on the job, the chance of mutually acceptable corrective action is greatly improved.”⁹⁵

Related to emotional maturity is self-knowledge. The ability to foresee how people react to one’s actions and communications is helpful in avoiding certain words and actions that cause negative feelings. It requires perceiving how others will react. The internal auditor must perceive the strengths, weaknesses, and attitudes of the manager/auditee.⁹⁶

Leadership requires creativity in problem-solving. Creativity is needed to approach each audit with fresh ideas, and make improvements.⁹⁷ Sawyer wrote an article entirely on this topic in 1992, with examples of applying this characteristic effectively. It involves always striving for improvement, breaking down a process, and combining concepts to result in something new and better.⁹⁸ Creativity requires initiative. Initiative is needed to see what others may not, to look beyond what is accepted and find solutions.⁹⁹

Internal auditors may share many characteristics with successful leaders; however, they may not direct auditees. Directing others in what needs to be done is not within the internal auditor’s authority. Their status within the organization should be high enough to insure that recommendations are adequately considered. Under their code of ethics, auditors have an obligation to take a matter to the board of directors if necessary, to discharge their responsibility.¹⁰⁰

⁹⁵ Ibid., p. 22.

⁹⁶ Ibid., p. 21.

⁹⁷ Ibid.

⁹⁸ Lawrence B. Sawyer, “The Creative Side of Internal Auditing,” *Internal Auditor* (December 1992), p. 57.

⁹⁹ Sawyer, “The Leadership Side of Internal Auditing,” p. 19.

¹⁰⁰ Ibid.

The Professional Internal Auditing Department

The internal auditing director is responsible for the technical and administrative functions of the department. Sawyer's writings are comprehensive covering the organization of the department and the responsibilities involved in administration, some of which concern others outside the department and some which are mostly internal concerns. These responsibilities, when carried out competently, can result in a professionally run department.

Organization of the Internal Audit Department

Who in the organization is responsible for the operation of the audit department, and under what authority? For optimum independence from the operations reviewed, the internal audit director should report to the audit committee. How does the director achieve this higher status? The questions are addressed by Sawyer in his writings on the following topics.

Organizational Status

In Sawyer's book The Practice of Modern Internal Auditing (The Practice), he explains the importance of being technically excellent. It is important to get the acceptance and support of management at the highest levels. This can be done with imaginative service and it will need to be sold to management. Technical ability will get the audit done, but without proper standing in the company the recommendations may fall on deaf ears.¹⁰¹ The internal auditor's organizational status in the company is

¹⁰¹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 2.

essential for independence from the activities being audited.¹⁰² Sawyer's words describe the importance of organizational status to the profession.

Independence, however, is more than a slogan or shibboleth. It is the climate in which the auditing organization needs to live and breathe and function. Internal auditing is a professional activity. Its task is to make professional judgments. It therefore demands the highest type of detachment, integrity, and objectivity. These attributes atrophy in the absence of practical independence. Thus an independent reporting status that permits the maintenance of the objectivity and removes the internal auditors from effective dependence upon the people whose activities they audit is utterly essential.¹⁰³

Sawyer writes that ideally the internal auditor would report to the audit committee or the board of directors. At a minimum, the internal auditing department should report to a level that will assure prompt and careful consideration of recommendations and opinions.¹⁰⁴ A 1968 survey done by the IIA showed that 47% of members reported to a vice president or higher. This was 17% higher than a survey completed ten years earlier. Sawyer concluded that management was coming to realize the importance of organizational status to the independence of the audit function.¹⁰⁵

In all cases the internal auditor should have access to the board and information should be provided to executive management. This must be accomplished through salesmanship.¹⁰⁶ "He must provide management with significant, interesting, and usable information which compels attention and demonstrates the value of the auditing organization (function)."¹⁰⁷ Sawyer explains that in this manner the auditor can establish some influence that will gain acceptance and enable a higher reporting status. His

¹⁰² Ibid., p. 3.

¹⁰³ Sawyer, The Practice of Modern Internal Auditing, p. 540.

¹⁰⁴ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 4.

¹⁰⁵ Ibid., p. 4.

¹⁰⁶ Ibid., p. 4.

¹⁰⁷ Ibid., p. 5.

ultimate goal is stated as follows. "As management becomes accustomed to new forms of reports and diagnoses it will become dependent upon them, look forward to them, make use of them, and elevate the director of auditing to a position as a member of the executive management team."¹⁰⁸

In 1995, after years in the profession, Sawyer published an article that summed up his philosophy on internal auditing in ten quaint sayings or maxims. One of these was "You can't stomp your foot when you are on your knees." The "stomp of the foot" referred to getting management's attention. Being on one's knees refers to a low position in the organization. Without adequate management support and organizational status, the internal auditing department will be ineffectual because recommendations will likely go unheeded.¹⁰⁹

The Charter

The department's authority, and responsibilities are found in the charter. It should specify the purpose or mission of the department.¹¹⁰ The charter can be composed of these two documents, the Functions and Responsibility Statement and the Statement of Policy.¹¹¹ A Functions and Responsibility Statement specifies the scope of examinations. Management should not restrict the scope of the audits or require opinions on technical matters for which the internal auditor does not have the required competence. Responsibilities of the director are listed and include the basic activities of internal audit with administrative functions necessary for the director.¹¹²

¹⁰⁸ Ibid., p. 5.

¹⁰⁹ Lawrence B. Sawyer, "An Internal Audit Philosophy," Internal Auditor (August 1995), p. 47.

¹¹⁰ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 5.

¹¹¹ Sawyer and Dittenhofer, p. 886.

¹¹² Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 5-6.

The Management Directive Policy Statement proclaims executive management's support and grants authority to the internal audit department to issue reports and expect prompt, effective action. It specifies that action will be taken on recommendations made by the auditor, a timeframe for corrective action, and that the auditor is the judge of the adequacy of the action. Examples for both documents are given in The Practice.¹¹³ Several example policy statements, functions and responsibilities statements, and charters for different types of businesses can be found in The Handbook.¹¹⁴

A policy statement or a more informal brochure is a way for upper management to communicate to personnel that they rely upon and support the internal audit activity. Sawyer recommends that these documents be signed by the chairman of the board and the executive officers.¹¹⁵ An example policy statement also is provided.¹¹⁶

Relationship with the Board of Directors

Sawyer added a chapter in the second edition of The Practice on the relationship between internal auditing and the board of directors. A 1978 survey found that 70% of audit staffs were meeting regularly with the audit committee members.¹¹⁷ The standards issued that year required internal auditors to be of service to board members as well as management. Sawyer provides a brief history of the function and responsibility assumed by the board and the history and growth of audit committees. Research on views, functions, and roles of audit committees is also summarized in his book.¹¹⁸

¹¹³ Ibid., p. 6-7.

¹¹⁴ Heesch and Sawyer, p. 12-21.

¹¹⁵ Sawyer, The Practice of Modern Internal Auditing, p. 544.

¹¹⁶ Ibid., p. 545-546.

¹¹⁷ Ibid., p. 541.

¹¹⁸ Ibid., p. 787-798.

Sawyer wrote that internal auditors can be of service to board members by providing audit results to keep them apprised of problems. Regular communication with internal audit will insure that members are aware of weaknesses in the company's information system. They can rest assured that any fraud discovered would be brought to their attention. Internal auditors could provide special studies for board members such as feasibility of acquisitions. Audit reports covering accomplishment of objectives could be used by board members to evaluate executive performance. Internal audit could provide information useful for new board members to become better acquainted with the company's background, operations, activities, etc. These are some examples explained and Sawyer provides a listing of information an audit committee might find useful.¹¹⁹

Sawyer also gave six such examples of ways to keep board and audit committee members informed and help them meet their obligations in an article published in 1984 entitled "The Essence of Management Oriented Auditing." He wrote that there are three conditions that could help to establish this relationship. A charter spelling out the rights and responsibilities of internal audit signed by corporate executives at the highest levels is a good start. Second is a policy that should never be broken. Internal audit should not report anything to the board that would come as a surprise to executive management. This could cause a conflict and board members will most likely side with management. Most important, internal auditors must be professionals. This is defined by Sawyer in this article as following the standards for the professional practice of internal auditing and the code of ethics for internal auditors.¹²⁰

¹¹⁹ Ibid., p. 799.

¹²⁰ Lawrence B. Sawyer, "The Essence of Management-Oriented Internal Auditing." The Internal Auditor (June 1984), p. 45.

Externally Visible Administrative Qualities

To be accepted in the upper councils of management, the internal auditor must act like a manager. Information reported to management is important to that perception. Internal audit must, first and foremost, turn out a high quality product. The product must be sold to the customer. Coordination with external auditors requires that the internal audit department have competent, professional staff. These topics are all discussed in administering the internal audit function.

Reporting to Management and Board Members

Summary reports to upper management on the operation of the internal audit department were advised by Sawyer from the beginning with his first book. The internal audit director should report to executive management periodically on the activities and findings of the internal audit department. These reports are not the audit reports providing the results of individual examinations, but are summaries based on the examinations done over a period of time. These reports are designed to communicate what has been accomplished by internal audit compared to what was planned.¹²¹ The purpose is to demonstrate the value of the internal audit function.¹²² Statistics reported include the man days worked, number of areas covered, number of reports issued, etc.¹²³ Example reports are provided.¹²⁴

The professional standards required these reports. The standards are specific and these requirements are explained in detail by Sawyer in the second edition of The

¹²¹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 434.

¹²² *Ibid.*, p. 435.

¹²³ *Ibid.*, p. 437.

¹²⁴ *Ibid.*, p. 439-456.

Practice published after the standards were issued.¹²⁵ When the reports became required by the professional standards, Sawyer said it created an air of urgency.¹²⁶ This leaves the impression that this type of reporting was something new for a lot of internal audit directors. Sawyer attempted to convince the reader that the reports were worth the effort in the following paragraph from his book.

The various administrative activities and reports just discussed may seem burdensome. When the auditor works feverishly to meet the deadlines for such reports he may bewail his task and berate his taskmaster. But the rewards are worth the effort. As he examines these reports, the executive manager sees the auditor as a continuing source of information that will help in the guidance of the enterprise. The auditor becomes more – not less – valued. And he moves one step closer toward his goal of being a rightful member of the councils of executive management.¹²⁷

The Handbook has many example reports. There is a statement of plans and objectives, level of audit coverage in days-actual compared to planned, summary of audits completed and in process, report of coordination with external auditor, summary of significant results, and reports on costs, staffing, and training among others.¹²⁸

Sawyer wrote that internal audit can provide much needed information to board and audit committee members going beyond what is required by the standards. Examples include reports on the administrative health of the company, the coordination with external auditors, the results of risk analysis, and the trends in audit findings.¹²⁹

Sawyer provided a classification scheme to readers that had been developed for analyzing trends in audit findings. The volume and type of finding indicates deterioration

¹²⁵ Sawyer, The Practice of Modern Internal Auditing, p. 514.

¹²⁶ Ibid., p. 514.

¹²⁷ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 468.

¹²⁸ Heeschen and Sawyer, p. 168-193.

¹²⁹ Lawrence B. Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing (Altamonte Springs, Florida: Institute of Internal Auditors, 1988), p. 721.

or improvement in administering the company's activities.¹³⁰ Example forms for use in categorizing and summarizing findings are included.¹³¹

Sawyer warns against too much data. The reports to management should not just be a catalog of every thing the department did or found.¹³² Sawyer and Dittenhofer wrote that the best way to measure productivity would be to measure the department's success in achieving its objectives. The objective might be to increase the output of the auditee by a specified percentage. The authors admit that there are difficulties. Audit objectives are difficult to state quantitatively and difficult to measure. An audit might benefit the organization as a whole or the benefit might not be immediate.¹³³

One way to measure the department's success is to ask auditees for their opinion of the quality of service upon completion of an audit. The Handbook includes an example post-audit analysis form. An example audit effectiveness questionnaire is also included with a cover letter.¹³⁴

Quality Assurance

As internal auditing gains higher reporting status within the organization, Sawyer wrote that it must also take on added responsibilities. There must be a high degree of professionalism. The Standards for the Professional Practice of Internal Auditing require a quality assurance program for this purpose. This program consists of three parts: adequate supervision, internal reviews and external reviews.¹³⁵ It was Sawyer's opinion that proper supervision is the first and most important step to a quality program.¹³⁶ If

¹³⁰ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 460.

¹³¹ *Ibid.*, p. 464-466.

¹³² Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 741.

¹³³ Sawyer and Dittenhofer, p. 856.

¹³⁴ Heeschen & Sawyer, p. 146-147 and 163-164.

¹³⁵ Sawyer, The Practice of Modern Internal Auditing, p. 660.

¹³⁶ *Ibid.*, p. 665.

audits are properly supervised the internal and external reviews will disclose no serious defects.¹³⁷ The following paragraph written by Sawyer, precedes his list of 24 elements of proper supervision.

Supervisors must make sure that audit work is well planned, audit scope is appropriate, audit resources are economically deployed, serious defects are not being overlooked, minor matters are not being overstressed, audit representations are solidly supported, significant deficiencies are thoroughly documented, audit opinions are buttressed by unassailable evidence, the audit effort is not dissipated by forays into irrelevant or insignificant matters, and staff auditors are properly trained and evaluated. Internal audit supervisors should monitor audit assignments from start to finish.¹³⁸

Reviewing all work done is the job of the supervisor and the internal audit director or manager reviews the work of the supervisor. In addition, Sawyer believed strongly in an internal verification system to catch errors in audit reports. This entails a serious review of the report by someone independent of the work, checking all data, tracing to work papers, and recalculating, checking dates, names, and titles, etc.¹³⁹

The internal reviews are separate from the normal supervisory review of audit work papers and reports. The purpose is to appraise the quality of audit work performed. Sawyer gives a list of 23 suggestions and questions to ask, and references these to the standards for the professional practice of internal auditing.¹⁴⁰

External reviews are carried out by peers to evaluate quality control in the department.¹⁴¹ The reviews check whether procedures are adequate, suitable, documented, communicated to staff, and being followed by the staff. The purpose is to assure that the department is meeting the standards for the professional practice of

¹³⁷ Ibid., p. 666.

¹³⁸ Ibid., p. 664.

¹³⁹ Ibid., p. 666.

¹⁴⁰ Ibid., p. 667.

¹⁴¹ Ibid., p. 668.

internal auditing. Sawyer does not give guidance on how to do such a review, but refers readers to an IIA publication on the topic.¹⁴² This is really an audit of the auditors and Sawyer sees some humor in it as follows:

Internal auditors who are placed in the position of auditees may learn some humility. They will obtain first-hand knowledge on how it feels to be reviewed, evaluated, and told about shortcomings. The experience may help to increase empathy with auditees and improve auditor-auditee relations.¹⁴³

Selling Internal Auditing Services

Sawyer believed the internal auditor had to sell himself and his product by being professional and providing a high quality service. Many internal auditors were only doing financial audits and Sawyer gave advice on how to expand their scope to include operations. Establishing competence and earning management's respect with professionally done traditional financial audits is a start. The next step is to apply management thinking and incorporate more operational type problems into the reports gradually.¹⁴⁴ "The auditor has a selling job to do before his findings will be fully accepted . . . and the product he sells must be of the quality that will capture and keep management's interest."¹⁴⁵ Sawyer gives examples of how to apply management thinking to traditional financial audit areas. This should help internal auditors bridge from just the traditional financial type audit to a modern management-oriented type audit.¹⁴⁶

Policy statements and brochures are ways for upper management to communicate to personnel that they rely upon and support the internal audit activity. This support may

¹⁴² Ibid., p. 669.

¹⁴³ Ibid., p. 671.

¹⁴⁴ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 19-21.

¹⁴⁵ Ibid., p. 23.

¹⁴⁶ Ibid., p. 21-22.

help to promote acceptance and cooperation from personnel.¹⁴⁷ A brochure might include the responsibilities of the internal auditor, the objectives of an audit, the qualifications of the staff, and the department's dedication to improvement.¹⁴⁸

Sawyer and Dittenhofer wrote that a mission statement, issued by the internal audit director, proclaims to others in the organization the purpose of the department. It can lift the function in the eyes of the board of directors and management. Examples are provided that focus on quality service, improvement, employee development, leadership, ethics, and teamwork.¹⁴⁹

Coordination with External Auditors

By coordinating efforts with external auditors, the internal auditors can save their company's money by enabling a lower audit fee. Based on published research, on average, internal auditors allocate 5 percent of the total audit time to assisting external auditors, for a 10 percent reduction in fees.¹⁵⁰

The Internal Auditor's Handbook has an example coordinated audit plan. This plan should be submitted to the audit committee and includes the cost of external audit fees and internal audit services along with a description of audit work.¹⁵¹ According to Sawyer and Dittenhofer increased coordination should bring about greater emphasis on improved audit quality.¹⁵²

For the external auditors to rely upon the work of the internal auditors, the internal auditors must be qualified, competent, and objective. External auditors must

¹⁴⁷ Sawyer, The Practice of Modern Internal Auditing, p. 547-548.

¹⁴⁸ Ibid., p. 547-548.

¹⁴⁹ Sawyer and Dittenhofer, p. 912-914.

¹⁵⁰ Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 1094.

¹⁵¹ Heeschen and Sawyer, p. 9-11.

¹⁵² Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 1096-1097.

consider the hiring, training, and supervision practices of the internal audit department. Also as a further test of competence, external auditors must evaluate the work of the internal auditors.¹⁵³ Objectivity is demonstrated through reporting status.¹⁵⁴ The director of internal audit should have access to the board of directors. The director should report to a person high enough to insure recommendations will be acted upon. Also the status should be documented in a charter which specifies the internal audit's authority, scope, and responsibility.¹⁵⁵

In the process of coordination with external auditors, the professionalism of the internal auditors is being evaluated by other professional auditors. Sawyer provided a listing of qualifications professional internal auditors should have. The director should be ready to provide evidence to satisfy the external auditors that the internal audit staff is competent. These include job descriptions, education and experience of staff, professional affiliations and certifications, continuing education received, and performance reviews.¹⁵⁶ Sawyer also provides a listing of criteria demonstrating competent and professional audit work. These address proper supervision and review, working papers that document the evidence supporting an audit report, and proper evaluation of controls.¹⁵⁷

About the need for cooperation with external auditors, Sawyer wrote:

It needs a firm foundation. It calls for the mutual understanding of each other's roles and objectives. It calls for respect for each other's professionalism. And it calls for professional conduct and professional competence.¹⁵⁸

¹⁵³ Sawyer, The Practice of Modern Internal Auditing, p. 776.

¹⁵⁴ Ibid., p. 777.

¹⁵⁵ Ibid., p. 778.

¹⁵⁶ Ibid., p. 778.

¹⁵⁷ Ibid., p. 779.

¹⁵⁸ Ibid., p. 783.

Other Administrative Qualities

Sawyer provided useful information for running a professional department with guidance on use of policy manuals for consistent quality audit work, controlling audit jobs through internal reporting, and the hiring and development of competent professionals. These are all important responsibilities that may go unseen to those outside the department.

Policy Manuals

Established policies and procedures will help to insure that the department is performing at a high level of competence. Sawyer discusses writing job descriptions and audit procedure manuals. Example full-page job descriptions are provided for manager, supervisor, senior, associate, and assistant internal auditor.¹⁵⁹ The Handbook also has example job descriptions.¹⁶⁰

Audit manuals provide policies and procedures for providing high quality service to management and should specify technical, administrative, and miscellaneous functions. The guidance is not intended to stifle innovative thinking, but to “establish standards that lift the level of performance and to provide assurance that the auditing department’s final product meets the director’s requirements.”¹⁶¹ Some topics are suggested to provide reasonable coverage.¹⁶² The Handbook has example table of

¹⁵⁹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 9 – 13.

¹⁶⁰ Heeschen and Sawyer, p. 22-26 and 63-87.

¹⁶¹ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 14.

¹⁶² Ibid.

contents and nine different example audit manual policies, one of which is the destruction of working papers procedure.¹⁶³

Internal Reporting for Control

In The Practice Sawyer discusses scheduling of staff and provides examples of a time report, a weekly status report, and a schedule board, used for time and budget control.¹⁶⁴ In the second edition, more information about controlling the audit with internal reporting was incorporated as computers had made it cost effective, especially in large departments. Examples include the following: Completed Assignments, Work Load Statistics, Status of Audit Assignments by Project and by Auditor, Report Review Status, and Over-due Reports.¹⁶⁵ The Handbook also includes examples of different types of internal reporting forms for use in controlling audit projects.¹⁶⁶ In later writings, newer technologies are introduced, such as Program Evaluation Review Technique (PERT), a sophisticated work scheduling tool.¹⁶⁷

A well-controlled, well-structured internal audit project has a far better chance of meeting its goals than one that is haphazard and formless. . . Without control of budget and schedule and without clearly defined guides to get it going, the project tends to languish; it suffers from lack of discipline. Discipline, from without and within, is the hallmark of the professional.¹⁶⁸

Hiring

Sawyer wrote that “The dreams of improved and varied services to management through modern internal auditing turn into nightmares if the people who prepare the audit programs, do the questing and the questioning, make the appraisals, and offer the

¹⁶³ Heeschen and Sawyer, p. 114-133.

¹⁶⁴ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 102-108.

¹⁶⁵ Sawyer, The Practice of Modern Internal Auditing, p. 646-653.

¹⁶⁶ Heeschen and Sawyer, p. 146-158.

¹⁶⁷ Sawyer and Dittenhofer, p. 1026.

¹⁶⁸ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management p. 98.

recommendations are not up to the demands that modern internal auditing makes of its practitioners.”¹⁶⁹

Sources for new auditors include other areas within the company, public accounting, and the college graduating class. College students are a source for part-time work as interns.¹⁷⁰ The Handbook describes an example internship program.¹⁷¹

Sawyer gave practical advice for the interview process. Example rating sheets are available in The Practice and in The Handbook.¹⁷² Sample questions to ask of candidates with and without experience are suggested.¹⁷³ Sawyer recommends testing the applicant’s writing ability and thought processes and some samples of tests that have been used for these purposes are illustrated.¹⁷⁴ Sawyer encouraged internal auditing directors to require professionalism within their departments by hiring only internal auditors who are certified or working toward certification.¹⁷⁵

Training

Sawyer wrote about the responsibility for development of staff including orientation and training for new hires as well as continuing education. Orientation for new hires should be well planned and structured, yet customized to the experience level of the new auditor. An example program for the orientation and training of new employees is provided.¹⁷⁶ New hires should have a formal on-the-job training program

¹⁶⁹ Ibid., p. 24.

¹⁷⁰ Sawyer, Sawyer’s Internal Auditing: The Practice of Modern Internal Auditing, p. 789.

¹⁷¹ Heeschen and Sawyer, p. 89-89.

¹⁷² Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 29 and Heeschen and Sawyer, p. 91.

¹⁷³ Sawyer, The Practice of Modern Internal Auditing, p. 572-573.

¹⁷⁴ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 32-35.

¹⁷⁵ Sawyer, “Why internal auditing?” Internal Auditor (December 1993), p. 45.

¹⁷⁶ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 38-40.

that is well supervised to demonstrate to external auditors that the staff is qualified.¹⁷⁷

The Handbook has an example record to document the training process and insure that all phases of the audit are covered.¹⁷⁸

On-the-job training continues as the staff progress. Sawyer provides advice on assignments of staff. Fairness dictates that the staff get exposure to a variety of supervisors and types of assignments.¹⁷⁹ An assignment record could be used to record and monitor the assignments and supervisors by employee, see The Handbook for an example.¹⁸⁰ Rotation of assignments among the staff periodically will also avoid a situation where the auditor's objectivity could be questioned by others.¹⁸¹ A comprehensive training and development program is good for the department, providing for consistency and quality in the work and is evidence that staff is maintaining competence.¹⁸²

From his earliest writings Sawyer promoted formal continuing education to stay current with developments and to prepare staff for promotion.¹⁸³ Sawyer wrote:

The torrents of technological changes in the business community should make it abundantly clear that the auditor must learn to breast the tide of new knowledge. . . Internal auditing especially – this relatively young and growing product of business needs – must keep current with the same changes that management itself must cope with. And there is no excuse for a progressive auditing organization that does not have formal, continuing programs of education for its staff people. . . The professional man must continue his formal education as long as he keeps alive in his profession. When he stops learning, his professional life starts to atrophy.¹⁸⁴

¹⁷⁷ Sawyer, The Practice of Modern Internal Auditing, p. 778.

¹⁷⁸ Heeschen and Sawyer, p. 95.

¹⁷⁹ Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 819.

¹⁸⁰ Heeschen and Sawyer p. 96.

¹⁸¹ Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 824-825.

¹⁸² Sawyer and Dittenhofer, p. 952-953.

¹⁸³ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 52.

¹⁸⁴ *Ibid.*, p. 53.

Evaluation

An evaluation system is needed to keep employees informed about the quality of their work. Sawyer believed evaluations should be frank, fair, frequent, and friendly. He wrote that a good system will establish objective performance criteria and a consistent measurement process that is communicated to the staff in advance to let them know what is expected.¹⁸⁵ He recommended evaluation after every audit to provide immediate feedback. In addition there should be an annual evaluation with the audit department director to discuss the overall progress of each staff member.¹⁸⁶

The appraisal should be constructive, focused on improvement rather than punishment. Weaknesses must be identified to help the individual improve.¹⁸⁷ Several example forms are given for different staff levels and with a variety of criteria.¹⁸⁸ Other example rating forms are available in The Handbook.¹⁸⁹

In later writings, Sawyer provides a discussion of the knowledge, skills, traits and disciplines needed to perform audit assignments that he believed should be evaluated. These include communication skills and getting along with auditees.¹⁹⁰ Traits that are important include leadership and judgment.¹⁹¹ He said the most important attribute is analytical ability displayed by the logical and systematic solving of problems.¹⁹²

Sawyer emphasized that the main purpose is to provide the staff person the opportunity to improve with training and counseling. Information gained may be useful in making staffing decisions as different skills are needed for different types of audits,

¹⁸⁵ Ibid., p. 66.

¹⁸⁶ Ibid., p. 68.

¹⁸⁷ Ibid., p. 68.

¹⁸⁸ Ibid., p. 70-77.

¹⁸⁹ Heeschen and Sawyer, p. 97-106.

¹⁹⁰ Sawyer, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, p. 817.

¹⁹¹ Ibid., p. 818.

¹⁹² Ibid., p. 816.

and in making decisions regarding promotions and merit pay increases.¹⁹³ It also demonstrates the competence of staff to external auditors.¹⁹⁴

Conclusion

No inconsistencies were noted in Sawyer's published books and journal articles. Very rarely, a topic was dropped from Sawyer's book The Practice because it was no longer needed. Frequently topics were added to incorporate changes occurring in the profession. The overall focus of Sawyer's writings tended to drift away from practitioner oriented to the more professional topics in later years.

In Sawyer's first book, he reported a trend away from reporting to the Controller. In the second edition, he reported that many directors were reporting to the board. As a result of growing emphasis on board involvement, a chapter was added "Relationships with Boards of Directors". Also, reference was made throughout the book to the board in response to the standards requiring service to the board as well as to management. By the third edition the majority of departments surveyed were reporting to the board. With the fourth edition, this information about the survey on reporting status was omitted. It was no longer relevant because reporting to the board of directors (or audit committee) had become accepted within the profession.

Sawyer's writings reflect the progression of the profession. At the time of his earliest writings, only the Statement of Responsibilities and the Code of Ethics existed. As events unfolded, there was more material to include. Sawyer wrote about the changes made to the Statement of Responsibilities. Later he included the Common Body of

¹⁹³ Sawyer, The Practice of Modern Internal Auditing: Appraising Operations for Management, p. 75.

¹⁹⁴ Sawyer, The Practice of Modern Internal Auditing, p. 778.

Knowledge, Certification, and the requirements of the professional standards in his writings. The requirements of the standards were the most significant change. The standards are quoted throughout Sawyer's book The Practice, and an entire chapter was added on quality assurance. As the discipline became a profession, the professional topics were added to his writings.

There does seem to be a change in the focus of Sawyer's writings over time. The topics seem to be more about the profession and less about how to do internal auditing. This could be just a matter of writing about what was new and the profession was developing over this time period. It could also be due to a change in Sawyer's thinking of what was important and needed to be communicated.

When IIA leaders began talking of a certification program, Sawyer was not in favor of the idea. When certification was being considered, Sawyer remarked, "Who needs it? What could it possibly do for me?" The leaders who were wanted certification told him to stop thinking of himself and think of what would be good for the profession. He said that urged him to start thinking of the future of internal auditing.¹⁹⁵ The leaders said if internal auditors were going to be a profession, they would have to take this giant step. He said, they convinced him and he was an advocate from then on, pouring his time and effort into the certification program.¹⁹⁶

This seems to be a turning point in Sawyer's thinking and writing. From a review of Appendix C, the articles published prior to 1974 were either included in the Grandfather Dialogues and were very basic or on the topics of internal control or statistics. With one exception, an article on the Statement of Responsibilities, all of the

¹⁹⁵ Sawyer, "A Learned Profession," p. 6.

¹⁹⁶ Sawyer and Mints, p. 15.

articles dealing with the profession were written after Sawyer's involvement with the certification program. See Table 14, page 302, for a listing of these journal articles on the profession of internal auditing. His first book was very practitioner oriented. As explained in the first section of the chapter, *Internal Auditing: A Professional Activity*, Sawyer referred to professional quality work, but the work was a practice rather than a profession and the auditor was referred to as a practitioner rather than a professional. Later editions, after 1973, maintained the original text on practice oriented subjects, but added professional topics such as standards and certification. In doing so, there is much more of a professional feel or sound to the later writings.

Comparison to the Internal Auditing Professional Timeline

A timeline of professional events was used from the IIA and updated with historical texts such as Dale L. Flesher's *The Institute of Internal Auditors: 50 Years of Progress Through Sharing*.¹⁹⁷ Writers included on the timeline are Victor Z. Brink and Bradford Cadmus. Brink wrote the first book on internal auditing in 1941. Cadmus wrote a book on operational auditing in 1964. Other events prior to Sawyer's writings on professional topics include the issuance of the Statement of Responsibilities in 1947, the Code of Ethics in 1968, the Common Body of Knowledge in 1972, and the establishment of the certification program in 1973. Events occurring after or concurrently with Sawyer's writings include the adoption of the professional standards in 1978 and approval of mandatory continuing professional education in 1987. There are several events related to education that occurred after Sawyer had written about the need in this area. This includes college education and continuing professional education.

¹⁹⁷ See Appendix K, Chronological Timeline of Significant Activities of the Institute of Internal Auditors.

The Writings of Brink and Cadmus

Brink's book on internal auditing was a detailed description of an audit of financial statements, commonly referred to as a "Balance Sheet Audit". The book written by Cadmus is a description of operational type audits of several different activities. There is little reference to professional topics by these authors. Topics that were dealt with in a paragraph or at most a page include hiring, training, use of procedures manuals, supervision of staff, and coordination with external auditors. Sawyer developed these topics fully with pages of information providing examples, best practices, etc. The ideas were not necessarily original to Sawyer. However, by assembling information in his writings he provided a useful resource.

Internal auditing was described by Brink as a service to management.¹⁹⁸ It is a means by which management can better direct and control business operations.¹⁹⁹ Cadmus also refers to the management view throughout his book.²⁰⁰ It seems that the "service to management" view of internal auditing was prevalent before Sawyer's writings.

Both earlier writers included a discussion of reporting status as a means of attaining independence from the activities audited. Brink wrote that at a minimum, the person to whom the internal audit director reports to should have access to executive management and should not be the head accountant, or the head of any operating department.²⁰¹ Cadmus quoted the Statement of Responsibilities on reporting to a level

¹⁹⁸ Victor Z. Brink, Internal Auditing: Its Nature and Function and Methods of Procedure (New York, New York: The Ronald Press Company, 1941), p. 35.

¹⁹⁹ Brink, Internal Auditing: Its Nature and Function and Methods of Procedure, p. 506.

²⁰⁰ Bradford Cadmus, Operational Auditing Handbook (New York, New York: Institute of Internal Auditors, 1964), p. 6.

²⁰¹ Brink, Internal Auditing: Its Nature and Function and Methods of Procedure, p. 48.

sufficient to insure adequate consideration of recommendations.²⁰² Therefore, Sawyer's writings in the area of independence had long been recognized by those in the profession.

All three authors wrote about the characteristics needed to be an internal auditor. The authors include many of the same qualities such as integrity, loyalty, objectivity, education and experience. Sawyer's list included some that were perhaps self-evident such as intelligence, dependability, and sincerity. Other qualities not mentioned before Sawyer were the ability to empathize, ability to predict reactions of others, and a matter-of-fact manner. All three authors were alike in their description of the qualified internal auditor in that they included many of the same characteristics.²⁰³ In summary, Sawyer contributed very little that was new to the description, but perhaps did a better job of putting it into words.

Statement of Responsibilities and Code of Ethics

Both of these documents were issued by the IIA before Sawyer's first book was published. Many of his writings on professionalism reflect the ideas found in these documents. Topics include objectivity, independence, and the qualities that a professional must demonstrate, including integrity, diligence, competence, confidentiality, avoiding conflicts of interest, providing a good faith work effort, and striving for improvement. Also, Sawyer's recommendations for the charter are consistent with the Statement of Responsibilities on the duties of internal auditors and the scope of their services.²⁰⁴ Sawyer was not the originator of these ideals, but promoted them as qualities all internal auditors should practice. The responsibilities and scope were not

²⁰² Cadmus, p. 21.

²⁰³ Brink, Internal Auditing: Its Nature and Function and Methods of Procedure, p. 59-61 and Cadmus, p. 19-20.

²⁰⁴ Brink, Foundations for Unlimited Horizons: The Institute of Internal Auditors, 1941-1976, p. 169 – 173.

lofty goals to Sawyer, but a template for establishment and administration of a professional department.

Standards for the Professional Practice of Internal Auditing

The standards were issued after Sawyer had published his first book and several articles. Professional topics included by Sawyer and also in the standards include use of a charter, reporting to management, quality assurance, dealing with staff, and coordination with external auditors.

Per the standards, the internal audit department should have a charter, a formal, written document that is approved by the management and accepted by the board. It should specify the scope and purpose of audits and give authorization for access to records, resources and personnel, and specify responsibilities of the internal audit department.²⁰⁵ This is consistent with Sawyer's writings with the exception of board acceptance. Sawyer did specify that the charter should be approved by an executive at the highest level. This could be taken to mean the chief executive office, but probably not the chairman of the board. Sawyer's writings in the area preceded the issuance of the standards for the most part. Neither Brink nor Cadmus made reference to this topic.

The standards specify that annually the director should report a work schedule, staffing plan, and financial budget for approval by management and to the board for informational purposes. At least annually, activity reports should be submitted to management and the board with significant findings and recommendations and

²⁰⁵ Sawyer, The Practice of Modern Internal Auditing, p. 814.

significant deviations from the approved work schedule, staffing plan and budget, with explanations.²⁰⁶

Sawyer advised internal audit directors to report to management in 1973, before the standards were written in 1979. The recommended reports included accomplishments, actual and budgeted cost, and labor hours. Sawyer did not include reporting to the board of directors or audit committee. In 1973, board members were not usually involved in internal audit activities. However, the fact that Sawyer wrote about the need for this type of reporting prior to the standards is significant. This topic was not mentioned by Brink or Cadmus.

Each internal audit department must have a quality assurance program according to the standards. This consists of supervision, internal review, and an external review. The purpose is to insure the department is following the standards.²⁰⁷ Sawyer did not write about the need for quality assurance or peer review before the standards were written. He did write about the director's responsibility for improving the department, and upgrading its service to management.²⁰⁸ Supervision of audit staff and review of the work were also included in Sawyer's book.²⁰⁹ These writings preceded the standards. However, improvement and supervision of staff were not new topics with Sawyer. Brink also wrote of supervision and continual improvement in methods.²¹⁰

On dealing with internal audit staff, the standards address policies and procedures, personnel hiring, and development. To guide the staff in consistent compliance with standards of performance, some form of communicating the policies and procedures is

²⁰⁶ Ibid., p. 814.

²⁰⁷ Ibid., p. 826.

²⁰⁸ Ibid., p. 20.

²⁰⁹ Ibid., p. 10-11,

²¹⁰ Brink, Internal Auditing: Its Nature and Function and Methods of Procedure, p. 54-56 and 58.

necessary. In a small department, written memoranda may be sufficient with close supervision. For a larger department, a comprehensive administrative and technical audit manual is essential.²¹¹ This is consistent with Sawyer's writings that were published prior to the standards. In addition Sawyer provides a detailed description of what should be included in the technical as well as the administrative sections.²¹² The idea of audit manuals was not new with Sawyer, however, because Brink also made reference to manuals of procedure in his book published in 1941.²¹³

Hiring practices are covered in the standards, including development of detailed job descriptions for each level, and selection of qualified and competent people.²¹⁴ Hiring auditors with the desired qualifications was included in Sawyer's first book The Practice. He included examples of job descriptions for each level of staff.²¹⁵ Sawyer's comprehensive coverage of hiring included questions to ask, an interview rating sheet with a list of desired qualities, and tests to administer for writing and problem solving ability.²¹⁶ Brink mentioned selection and training of staff as responsibilities of the director so the topics were not new with Sawyer's writings.²¹⁷ However, Sawyer provided expanded coverage, with useful information on how to carry out these responsibilities, that was not available in any internal auditing publication previously.

In addition to hiring, provision of opportunities for training and continuing education of staff are responsibilities of the internal audit director as well, according to

²¹¹ Sawyer, The Practice of Modern Internal Auditing, p. 825.

²¹² Sawyer, The Practice of Modern Internal Auditing, Appraising Operations for Management, p. 14-17.

²¹³ Brink, Internal Auditing: Its Nature and Function and Methods of Procedure, p. 54, 64-65.

²¹⁴ Sawyer, The Practice of Modern Internal Auditing, p. 826.

²¹⁵ Sawyer, The Practice of Modern Internal Auditing, Appraising Operations for Management, p. 9-13.

²¹⁶ *Ibid.*, p. 24-34.

²¹⁷ Brink, Internal Auditing: Its Nature and Function and Methods of Procedure, p. 62-63.

the standards.²¹⁸ Continuing education is also a responsibility of each internal auditor in order to be professionally proficient and maintain competence.²¹⁹ Continuing professional education was not required to maintain current CIA status until 1987. Sawyer believed that continuing education was essential because of the changes taking place in the profession, in technology, and in management philosophies. However, he never stated that it should be required to maintain certification. He included several pages of information on how to train staff and promote continuing education in his book published in 1973, prior to the standards.²²⁰

Brink acknowledged the responsibility for some degree of training of new employees. On the topic of continuing education, there is only one statement given in Brink's conclusion and it is in response to the idea of expanded scope of services to include efficiency of operations. "This requires on the part of internal auditors a constant endeavor to increase their knowledge of general auditing technique."²²¹

The Statement of Responsibilities was silent on the topic. However, The Code of Ethics specifies that internal auditors will strive for improvement in proficiency and effectiveness of services.²²² Cadmus wrote that it is the internal auditor's responsibility to keep up to date by studying management tools and techniques in order to do operational auditing.²²³ Continuing one's education was only mentioned by these earlier authors with a single statement. Sawyer included pages of information in his book and included the topic in the Grandfather Dialogues and in several journal articles.

²¹⁸ Sawyer, The Practice of Modern Internal Auditing, p. 826.

²¹⁹ *Ibid.*, p. 818.

²²⁰ Sawyer, The Practice of Modern Internal Auditing, Appraising Operations for Management, p. 52-66.

²²¹ Brink, Internal Auditing: Its Nature and Function and Methods of Procedure, p. 506.

²²² Flesher, p. 26.

²²³ Cadmus, p. 466.

The internal audit director is also responsible for staff evaluation and counsel on performance and professional development, per the standards.²²⁴ Sawyer included this topic in his book before the standards were issued. Neither Brink nor Cadmus discussed this as a responsibility of the director; however, their books were not oriented towards how to administer the internal auditing department, but rather how to do specific types of audits.

Coordination with external auditors is included in the standards as a responsibility of the internal audit director to insure adequate coverage and to avoid duplicate efforts. Coordination involves meeting periodically, exchanging reports, having mutual access to working papers, and having a common understanding of methods, terminology, and techniques.²²⁵ Sawyer recognized this as important and included a paragraph in his first book.²²⁶ It was not given significant attention in his writings until after the standards were issued. Coordination with external auditors is a traditional topic in internal auditing literature as it in many cases justified the existence of internal audit. Both Brink and Cadmus included the topic in their writings.²²⁷

In summary, of the professional topics covered in the standards and also by Sawyer in his writings were the charter, reporting to top management, quality assurance, audit manuals, hiring, training, and development of staff, and coordination with external auditors. Sawyer was not the first author to mention audit manuals, hiring and training of staff, and coordination with external auditors. Brink and/or Cadmus also gave mention to these topics in their writings. Quality assurance, specifically peer review, was not a topic

²²⁴ Sawyer, *The Practice of Modern Internal Auditing*, p. 826.

²²⁵ *Ibid.*, p. 826.

²²⁶ Sawyer, *The Practice of Modern Internal Auditing, Appraising Operations for Management*, p. 81.

²²⁷ Brink, *Internal Auditing: Its Nature and Function and Methods of Procedure*, p. 57 and Cadmus, p. 22.

Sawyer included prior to the issuance of the standards. Topics that he wrote about before the standards were issued and that were not mentioned by Brink or Cadmus are the charter, reporting to top management, and professional development of staff.

The Need for University Education

From a review of the internal auditing timeline, there were several items in the 1980s related to education. In 1984, the first pilot school was established at Louisiana State University. In 1986, a target school program was started, with \$15,000 grants given to schools to establish an internal auditing program.²²⁸ Also in 1986, the Leon Radde Outstanding Educator Award was established. It appears that Sawyer's articles may have contributed to some interest by the IIA. Sawyer wrote about the need for improvement in education to prepare college students for a career in internal auditing in several journal articles in the late 1970s.

However, a closer look shows that educational needs were not new to the profession. As early as 1944, the IIA president recognized the need to help universities develop internal auditing courses and material. Since that time, with the exception of the 1960s, the IIA education committee has worked to promote internal auditing in universities and help to develop courses and materials.²²⁹ Sawyer was not the first author to write about this problem. The head of the education committee of the IIA in 1945-46 wrote several articles.²³⁰ An article was published in 1974 on the declining situation with university education due to the period of inactivity in promoting education by the IIA in the 1960s.²³¹ Due to several other writers publishing on the topic, and the work of the

²²⁸ Flesher, p. 106.

²²⁹ Ibid., p. 98-111.

²³⁰ Ibid., p. 97.

²³¹ Ibid., p. 103.

IIA educational committee, it is impossible to attribute progress in education to the writings of Sawyer alone. Progress has been made because of the work of many individuals over the years.

In summary, Sawyer's writings on the need for a charter to specify the scope and responsibilities of the internal audit department, was published before it was made a requirement by the professional standards. The same is true for internal summary reporting to management on the costs and accomplishments of the department. Another topic included by Sawyer before required by the standards is staff performance evaluation and development through counseling. Sawyer was on the committee that wrote the professional standards and could be responsible for the inclusion of these requirements in the standards.

There is no question that Sawyer made a contribution in the area of professionalism. Through his writings he chronicled the development of the profession and promoted each step that was taken. In his book, The Practice, Sawyer provided a wealth of information for the professional auditor as well as for the director in administering a professional department. In his articles he promoted certification, the statement of responsibilities, the code of ethics and the standards, convincing readers that this discipline was a true profession. In the words of Trish Harris, at the IIA,

He loved the profession. He believed in the standards and certification. He was dedicated to promoting the professionalism of the profession. His name became synonymous with the profession.²³²

²³² Personal interview with Trish Harris, IIA Administrator, Altamonte Springs, Florida, March 30, 2004.

CHAPTER IX

SUMMARY AND CONCLUSION

In this chapter, the service of Lawrence B. Sawyer with the Institute of Internal Auditors (IIA) is reviewed. The awards earned over his professional career are summarized. The conclusions in the previous chapters, based upon his writings, are summarized here. These conclusions are drawn from analysis of his writings in books and journal articles, including the Grandfather Dialogues, and the writings on the practice, politics, philosophy and professionalism of internal auditing. This chapter ends with an overall conclusion as to the contribution this man has had on the profession of internal auditing.

Summary of Awards and Service

Lawrence B. Sawyer was an active member of the IIA for 45 years serving as local chapter president in 1966-67. In a national capacity, Sawyer served on several influential committees. He was the chairman of the international research committee in 1969-71. This committee was responsible for a significant revision of the Statement of Responsibilities. Sawyer wrote about some of the changes that he felt were most important. The emphasis on accounting and financial matters was removed from the statement. The internal auditor was to be concerned about all significant aspects of an organization's operations. Reference to information reviewed was changed from "accounting and other data" to simply "management data". These changes were considered important in that it signified a trend away from accounting type audits to operational auditing, which includes all company operations and

consulting type services. This is what Sawyer referred to as modern internal auditing. A new responsibility was added to the statement with the other revisions. This required internal auditors to recommend improvements. In the past, internal auditors were primarily concerned with detecting and preventing problems. A constructive approach is central to modern internal auditing. As Sawyer said, "Leave every place a little better than you found it."

During the period of 1971-1974 Sawyer served as a national Director at Large. He served on the Board of Regents responsible for the first Certified Internal Auditor (CIA) examination starting in December 1973. The chairman of the board had passed away. One of the other board members stepped up to lead and left a vacancy that was filled by Sawyer. He was officially appointed to the board for the 1975-76 term. The certification program helped to raise internal auditing to the level of a profession. Sawyer had a significant role in this important step. The Lawrence B. Sawyer award was established in his honor. It is given annually to three affiliates that contribute the most to the development of the CIA program.¹

Sawyer also served on the nine-member subcommittee that wrote the first standards for the profession in 1975. There were five general standards and 25 specific standards. The original standards have been updated and reformatted into a new framework, but the guidance in the original standards has been incorporated into the new format.² The issuance of the standards gave the profession a full foundation for its claim to professionalism.³ According to the current International Chairman of IIA, Thomas Warga, the professional standards have raised the status of the profession giving it credibility. The profession is

¹ http://www.theiia.org/index.cfm?doc_id=190

² Lawrence B. Sawyer, Mortimer A. Dittenhofer, and James H. Scheiner, Sawyer's Internal Auditing (Altamonte Springs, Florida: Institute of Internal Auditors, 2003), p. 1359.

³ Dale L. Flesher, The Institute of Internal Auditors: 50 Years of Progress through Sharing (Altamonte Springs, Florida: Institute of Internal Auditors, 1991), p. 37.

recognized to the degree that representatives testify before Congress on corporate governance. The chairman attributes this respect in part to the professional standards.⁴

It has been said that Sawyer won every award given by the IIA in his lifetime. There are some awards given to chapters, and to students. But of those given to individuals, it is true that he was presented with every award for which he was qualified. Sawyer never won the Leon R. Radde Educator of the Year award. This award was presented for the first time in 1986.⁵ At that time Sawyer was retired from teaching and not eligible. He was awarded the Bradford Cadmus Memorial Award in 1973 for his book, other publications, and service. This is the IIA's most prestigious award. He received the Victor Z. Brink Award in 1993 for distinguished service. Sawyer's family said that the IIA made up another award just to honor Sawyer, when he received the first Lifetime Achievement Award in 2000.

It is for his writing that Sawyer is most remembered. He won the John B. Thurston Award for writing excellence four times, more than any other person. It is an annual award given for the best article. Sawyer was honored three additional times as a runner-up for the award, and given recognition as an outstanding contributor. Honors include having an award named after him in 1997, the Lawrence B. Sawyer Award, for promotion and support of the CIA program. He was also honored by having the IIA international library named after him. In Great Britain, the Managerial Auditing Journal gives an award for the best article published annually that is named after Sawyer. Sawyer's wife, Esther, is also honored for her work and support with an annual scholarship to an internal auditing student given through the IIA. This gives recognition to the work that they accomplished together.

⁴ Telephone interview with Thomas Warga, IIA Chairman, November 2, 2005.

⁵ Flesher, p. 109.

Summary of Conclusions on Originality

The grandfather dialogues were innovative in style but not in content. Analysis of the internal auditing profession timeline shows that there were no new ideas put forth in this early work. The material was consistent with writings published prior to Sawyer's inclusion in the grandfather series.

Sawyer's writings on practice-oriented topics that were not found in the books written earlier include the framework for evaluation of internal control based on the functions of management, what to do when no operating criteria has been established, and the planning consideration of risks and the effects of good management.

In the area of the politics of internal auditing, Sawyer's unique contribution is the participative audit. His approach of getting the auditee involved is much more developed. He believed in open communications and in getting the auditee involved in the planning, and the conducting of the audit, as well as in developing solutions for deficiencies.

The philosophy that a deficiency is always caused by a violation of a management principle seems to be an original contribution of Sawyer. Applying the management functions of planning, organizing, and directing to the audit process is also somewhat original. The profession had realized the importance of the internal auditor knowing management principles, as evidenced by the Common Body of Knowledge.

Sawyer advised professional internal audit directors to have a charter, to report to management and develop personnel. He did not include reporting to the board of directors or getting their acceptance of the charter at that time, but incorporated these requirements after the professional standards were issued. The recommended reports were for evaluation of the performance of the internal audit function. Sawyer wrote that the internal audit director is

responsible for staff evaluation and counsel on performance and professional development. Earlier writers did not mention these topics. However, their books were oriented towards doing specific types of audits rather than administration of the department.

Perhaps these were new ideas that Sawyer brought to the profession. Sawyer acknowledged contributions from many internal auditors in the field and The Practice was to be about how modern internal auditing was actually being practiced by the most innovative organizations. It could very well be that these ideas had been developed by others and were simply recorded by Sawyer.

Relevance to Internal Auditing Today

Today's internal auditing profession has seen tremendous growth and change due to the Sarbanes-Oxley Act (SOX). It has been said to be the most significant legislation to affect the accounting profession since The Securities Act of 1933.⁶ To increase independence of the external auditors, most consulting done by the external auditors of the financial statements, has been made unlawful, including internal auditing. The New York Stock Exchange recently required all listed companies to have an internal audit function. It is estimated that this would require 20% of companies to acquire the service, in-house or from consultants.⁷

Section 404 of SOX requires that management evaluate its internal controls over financial reporting and file a report with its financial statements on the effectiveness of the internal controls. The controls must be documented and tested. The external auditors then report on management's evaluation. In doing so they may rely on the work done by internal

⁶ Craig A. Latshow, "Fraudulent Financial Reporting: The Government and Accounting Profession React," Review of Business (Spring 2003), p. 13.

⁷ Cynthia Harrington, "Internal Auditor's New Role," Journal of Accountancy (September 2004), p. 70.

auditors.⁸ Many companies are using their internal auditors to help with the project. Many internal auditors are taking a leadership role in SOX section 404 implementation.⁹

These recent changes have made the internal audit function more prominent. New internal auditing departments are being started, and established departments are being expanded.¹⁰ Internal audit departments are spending from 25% to 100% of resources on SOX compliance.¹¹ Some departments are reported to be increasing their staff 25% to 30% just for section 404. A survey showed that 50% of companies were increasing their staff.¹² The Wall Street Journal recently reported that internal auditing was a “hot field” due to the above reasons cited and the need for forensic accountants who can find or prevent corporate fraud. IIA membership has grown 30% since 2002 as has the number of new CIAs.¹³

Sawyer’s work on internal control is consistent with the Treadway Commission’s Committee of Sponsoring Organizations (COSO) framework, which has become the standard used for internal control evaluation. The current literature stresses finding the true key controls using a risk-based approach, a balance between preventive and detective, and evaluating the control environment.¹⁴ According to the COSO framework, controls should be geared toward achievement of objectives. Control is a means to an end, not an end in itself.¹⁵ Executive management and board members should be educated on the importance of

⁸ Public Company Accounting Oversight Board Auditing Standard No. 2.

⁹ William J. Cenker, Albert L. Nagy, “Section 404 Implementation: Chief Audit Executives Navigate Uncharted Waters,” Managerial Auditing Journal (September 2004), p. 1147.

¹⁰ Tina D. Carpenter, M.G. Fernema, Phillip Z. Fretwell, and William Hillison, “A Changing Corporate Culture,” Journal of Accountancy (March 2004), p. 57.

¹¹ Cenker, p. 1144.

¹² Harrington, “Internal Auditor’s New Role,” p. 65.

¹³ Julie Bennett, “The Search Is On for Forensic Accountants Who Can Find Or Prevent Corporate Fraud,” The Wall Street Journal (October 11, 2005), p. B11.

¹⁴ David Salierno, “Corporate Disclosure Analyzed,” Internal Auditor (August 2005), p. 23.

¹⁵ Cythia Harrington, “The New Accounting Environment,” Journal of Accountancy (August 2003), p. 28.

internal control.¹⁶ According to Larry E. Rittenburg, the chairman of COSO, internal control should be applied in a cost effective manner as it should result in greater effectiveness and efficiency of operations. Internal control is not just about accounting, it is about compliance, safeguarding of assets, and effectiveness of operations.¹⁷

All of these ideas are consistent with Sawyer's earlier writings on the topic of internal control. Sawyer recommended a risk based approach to evaluation and consideration of management skills in preliminary planning. He emphasized that management is responsible for internal control and that their attitudes are important to planning. Although he did not use the terms tone at the top, or control environment, the same ideas are included in his writings. He emphasized the importance of controls being linked to management objectives, that they be related to operations as well as accounting. He stated in his writings that controls should never be an end in itself but a means to an end. He believed controls should be cost-effective and that only key controls need be evaluated by the auditor.¹⁸

There are other topics in Sawyer's writings that are relevant to today's profession. Examples include detection and prevention of fraud, characteristics needed for an internal auditor, interpersonal skills, and communication skills. As a former IIA president said, "Sawyer's writings are perceived to have timeless relevance and value to the profession."¹⁹

Overall Conclusion

Sawyer's writings continue to have an impact in the publication of his book, Sawyer's Internal Auditing. It has been called his legacy. The majority of his writings represent ideas

¹⁶ Mary Locatelli, "Good Internal Controls and Auditor Independence," The CPA Journal (October 2002), p. 13.

¹⁷ Russell A. Jackson, "There is no shortcut to good controls," Internal Auditor (August 2005), p. 62.

¹⁸ See the discussion of Sawyer's writings on internal control on pages 164 through 169.

¹⁹ William G. Bishop III, IIA President, "Introduction", Sawyer's Words of Wisdom, yet to be published.

of others. He wrote about and developed these ideas, incorporated the current best practices, and summarized them in one place for the practicing internal auditor or student. “He was very good at organizing information and being able to synthesize the key points.”²⁰ Sawyer was very adept in his ability to explain and to present logically.²¹ So his contribution was in bringing information together in a useable resource.

Known today as Sawyer’s Internal Auditing, it was rated the number one book most important to the profession by internal auditors and is the number one best selling college textbook for internal auditing classes. The information has been updated periodically with new editions so that it has always been current. Sawyer generally wrote about the basics of internal auditing and the basics do not change. Most of his writings are still relevant today.

Several internal auditors interviewed thought that Sawyer’s book was his most significant contribution to the profession. The following comments are from an author and leader in the field.

For all Larry’s strengths as a writer, speaker, motivator and an icon to the profession – and those would in no way be demeaned – he was not strong on first hand research. He did not continue in practice, neither did he go out and spend in depth time in the field with people who were in practice to see the day-to-day practice of internal auditing. But, hey, even Achilles had his heel! On balance through his writing Larry Sawyer provided the profession a keystone publication that struck a cord that no other ever did. I am looking across my office at a bookshelf full of texts written by people I respect and admire as much as Larry who wrote manuals on internal auditing that did not catch fire like his did. Maybe the sponsorship by the IIA had a lot to do with it but the IIA also sold the others. Certainly the fact that Larry published in other forms like the Grandfather series and innumerable articles and monographs had to buoy the sales of the book. The constant speaking engagements had to help as well. Still and all there is just something about the Sawyer style that made it an easy piece for a novice to pick up and read; an easy reference to return to when preparing for the basics in the CIA exam.

²⁰ Telephone interview with Anne Graham, former editor of the Internal Auditor and author, Chicago, Illinois, April 7, 2004.

²¹ Telephone interview with Dr. Mortimer A. Dittenhofer, coauthor, professor, internal auditor, and friend, Washington, D.C., December 9, 2003.

Last and maybe most compelling, it was an easy source for CIA exam question writers to go to cite as a reference for a myriad of subject areas when they were constructing and submitting questions for the exam.²²

Thomas Warga, IIA International Chairman, started his career in 1974. He observed first hand the change that occurred in the profession as a result of Sawyer's book The Practice, first published in 1973. The book was the first how-to guide for establishing and running a professional internal auditing department. Before that time, internal auditing was conducted informally, often without policies and procedures. With direction from Sawyer, some consistency began to develop in structuring and operating the internal auditing function. This was strengthened by the adoption of standards for the profession. It was his opinion that Sawyer's book initiated the change that helped to turn a discipline into a true profession.²³

Sawyer's name is mentioned in the current literature without introduction.²⁴ He was not a founder of the profession, and never served in a national office of the IIA. Yet he is an icon for the profession. Sawyer was one of nine people recognized as making a difference in the first 50 years of the IIA. An IIA Research Foundation 2003 report named him and one other, Victor Z. Brink, as the two most influential people to the profession.

Some feel that Sawyer has received too much credit. One internal auditor and friend of Sawyer said that others had done the work and Sawyer just wrote about it. Sawyer himself admitted this in the following statement. It was made in reference to the many journal articles he had published over the years. "And as I contemplate my shelf of Internal Auditors, (the journal) I have the warm feeling of knowing that I have been a part of this

²² Interview with anonymous internal auditing leader.

²³ Telephone interview with Thomas Warga, IIA International Chairman, New York, New York, November 2, 2005.

²⁴ Thomas Warga, "Keeping Our Promise," Internal Auditor (August 2005), p. 40.

evolving process, if no more than a chronicler of what our more daring members propose and accomplish.”²⁵ There were many other leaders who have contributed over the years. It was the work of many individuals that pushed the profession forward, not just one person. Each made a contribution. Sawyer’s contribution was in promoting the profession through his writing and speaking. He wrote 11 books and over 40 articles. It is said that he gave over 100 speeches and conducted 186 seminars. He was an outstanding person, an excellent writer and speaker, and a leader in his field.

It is the author’s opinion that Sawyer made a significant contribution to the profession of internal auditing through communicating ideas. He communicated the best practices in internal auditing at the time, making information available to all internal auditors. In this manner he helped to bring consistency to the profession. He was an excellent agent for change as he readily accepted change and was able to communicate it to others in a way that promoted acceptance. He practiced the IIA motto, Progress Through Sharing. Through sharing of information, and a talent for communication, change and progress was accomplished.

²⁵ Lawrence B. Sawyer, “Reflections on a Half Century of Internal Auditor,” Internal Auditor (August 1993), p. 21.

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APPENDIX A
ACCOUNTING BIOGRAPHICAL
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APPENDIX B
ALPHABETICAL LIST OF JOURNAL ARTICLES
PUBLISHED BY LAWRENCE B. SAWYER

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- “A Learned Profession,” Internal Auditor (August 1999), pp. 6.
- “A Mini-History of the Standards,” Internal Auditor (June 1988), pp. 24-32.
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APPENDIX C
CHRONOLOGICAL LIST OF JOURNAL ARTICLES
PUBLISHED BY LAWRENCE B. SAWYER

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APPENDIX D
ALPHABETICAL LIST OF BOOKS
WRITTEN BY LAWRENCE B. SAWYER

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Elements of Management-Oriented Auditing (Altamonte Springs, FL: Institute of Internal Auditors, 1983).

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The Manager and the Modern Internal Auditor: a Problem Solving Partnership (New York: AMACOM, 1979).³

The Practice of Modern Internal Auditing: Appraising Operations for Management (New York: Institute of Internal Auditors, 1973).⁴

¹ It has been printed that Sawyer published some 19 to 20 books. The 11 included here that were written by Sawyer, plus five books edited and three later editions to The Practice of Modern Internal Auditing, make the 19 as printed in several articles. A later edition of The Manager and the Modern Internal Auditor would make the 20. Several books had new titles with later editions and perhaps this could account for the confusion in the number of books written. A recent edition of The Practice of Modern Internal Auditing, published in 2003 would actually make this count 21.

² Coauthored with Frederic E. Mints.

³ The second edition of this book was coauthored with Gerald Vinten and renamed The Manager and the Internal Auditor: Partners for Profit.

⁴ The third edition of this book was coauthored with Glenn E. Sumners and renamed Sawyer's Internal Auditing, The Practice of Modern Internal Auditing. The fourth edition was coauthored with Mortimer A. Dittenhofer. The book is now in its fifth edition with an additional coauthor, James H. Scheiner. Contributions were made from Anne Graham and Paul Makosz.

Review Course for the Certified Internal Auditor Examination (Altamonte Springs, FL: Institute of Internal Auditors, 1974).⁵

Review Course for the Certified Internal Auditor Examination, Discussion Leaders Guide (Orlando, FL: Institute of Internal Auditors, 1974).

Supplement to the Sampling Manual for Auditors (New York: Institute of Internal Auditors, 1970).⁶

⁵ The review course and the discussion leaders' guide were coauthored with Frederic E. Mints.

⁶ Corporate author is Lockheed California company internal auditing unit.

APPENDIX E

ALPHABETICAL LIST OF BOOKS

EDITED BY LAWRENCE B. SAWYER

APPENDIX E

ALPHABETICAL LIST OF BOOKS EDITED BY LAWRENCE B. SAWYER

Instructor's Guide For a Course in Audit Sampling For Difference and Ratio Estimation (Altamonte Springs, FL: The Institute of Internal Auditors, 1981).

Sampling Manuel for Auditors (Orlando, FL: The Institute of Internal Auditors, 1967).

Supplement to Sampling Manual for Auditors (Orlando, FL: The Institute of Internal Auditors, 1970).

Bibliography of Internal Auditing: 1950 - 1965 (New York: The Institute of Internal Auditors, 1967).¹

¹ Sawyer was the associate editor; Frederic E. Mints was the editor.

APPENDIX F
LAWRENCE B. SAWYER'S
AWARD WINNING JOURNAL ARTICLES

APPENDIX F

LAWRENCE B. SAWYER'S AWARD WINNING JOURNAL ARTICLES

Thurston Award Winners

“Anatomy of Control,” The Internal Auditor (Spring 1964), p. 13-22.

“Simple Sampling – How to Stop Worrying and Learn to Love Statistical Tables,” The Internal Auditor (July/August 1968), p. 9-26.

“Tomorrow’s Internal Auditor,” The Internal Auditor (June 1978), p. 11-23.

“Management Fraud: The Insidious Specter,” The Internal Auditor (April 1979), p. 11-25.¹

Outstanding Contributor Winners

“Sworn Depositions” Internal Auditor (October 1994), p. 47-53.

“Janus or The Internal Auditor’s Dilemma,” The Internal Auditor (December 1980), p. 19-27.

¹ Coauthored with Albert A. Murphy and Michael Crossley.

APPENDIX G
EXAMPLES OF POEMS WRITTEN BY SAWYER
AND ONE POEM WRITTEN TO SAWYER

APPENDIX G

EXAMPLES OF POEMS WRITTEN BY SAWYER AND ONE POEM WRITTEN TO SAWYER

POEMS WRITTEN TO ESTHER

Example of a birthday poem.

June 1995

You've been my rock, my port,
My anchor, and my stabilizer.
You were my guide when I needed
Direction.
You've been my support and strength
Through all those learning years:
You kept accounts and paid the bills,
When I was deep in studying.
You gave me comfort
When the whole world seemed against me.
You shaped me into what I happily
Turned out to be.

And now it's your turn to be
Comforted
And guided
And protected
And cared for.
That is the way it must be;
That is our design and destiny.
And I am grateful I can do it,
Because I love you
And I still need you
As you need me.

Example of an anniversary poem.

May 1978

We've made it through another year,
And always riding in high gear.
We've been together near and far,
On many a challenging seminar;
Atlanta, Toronto, Montreal;
And everywhere we had a ball.
We played in plays and sang of skeeters,
And lazed in the land of the lotus eaters.
Enjoying life with friends and neighbors,
Between my travels and lecture labors.
But then because my book as late,
My publisher said: "Now fish or cut bait."
So together we toiled with the final draft,
For days and nights 'til we near went daft,
But the book's now finished, I reached the end,
With the help of my wife, my faithful friend.
You're always there, right by my side,
Since that long-past day you became my bride.

It's been such a wonderful, fruitful life,
Because, my friend, you are my wife.

Example of a Valentine Poem

February 1976

Come fly with me and be with me,
There's so much still to see with me.
Come travel east and west with me;
Come soar up to the crest with me.

With you each town's a trusting place;
Without you just a chore to face.
With you the job's all spark and glow;
Without you just a row to hoe.

When day's work's done, that lonely room
Can cast a pall of dreary gloom,
But when you're there to say hello
I'm chanticleer and proudly crow.

What fun it was in Montreal,
Toronto, too, the cold and all.
Seattle, Portland, New Orleans,
And San Francisco's windy scenes.

Minneapolis and Washington;
And even Saddlebrook was fun.
Denver, London, Tokyo,
Atlanta, San Antonio.

Dallas, Windsor, Hollywood,
And Derby, England and old Sherwood.
Phoenix, even Lynchberg too –
They all are great when I'm with you.

So when a letter from afar,
Says, "Sawyer, give a seminar,"
I gladly pay the extra fare,
So I can say: "WE will be there."

Once more we start a traveling year,
With France and Norway coming near;
For all the world is bubbly wine,
When you're with me, my Valentine.

POEMS WRITTEN ABOUT AUDITING

COMPREHENSIVE AUDITING

We test without apology
Both safety and ecology
And inventories, budgets, and production.
Checking scrap and sanitation,
Overtime, and transportation –
Not forgetting cost accounting and construction.
We test sales and check insurance
(EDP tries our endurance
As we audit payroll, cash, and simulation!)
We study management by objective,
Test controls that are defective,
And evaluate employee compensation.
We do sampling and regression
And there is a strong impression
We're responsible for catching all the crooks.
We are really in our element
With research and development –
But thankfully, we do not keep the books.
We check aircraft, trucks and motor cars,
And rockets that fly up to the stars,
And leases, loans – even personnel.
We examine engineering
Even salvage is endearing
And we check on records management as well.
There is nothing we can't verify –
There's nothing that escapes our eye,
Alert to all misconduct and to fraud.
We will go where others fear to tread
And as it has been often said,
We're the eyes and ears of management
And the board.”

As published in the IIA Educator, Fall 1998, page 11, and was introduced as a comprehensive, yet whimsical, view of the responsibilities of internal audit professionals.

The poem was also included in an article entitled “Auditing Anything Under the Sun” published in The Internal Auditor, December 1981, page 31.

INTERNAL AUDITOR – THEN AND NOW

The author Elbert Hubbard, in a moment born of pique,
Described the classic auditor as something of a freak.
He dipped his quill in vitriol and opened his Thesaurus,
Then penned a definition of the old time-checker for us.
The auditor, said Hubbard is a man past middle age,
Spare, wrinkled, cold and passive, although something of a sage.
Polite and noncommittal, unresponsive as a post,
With eyes much like a codfish and the charm of burnt rye toast.
He's calm and damnably composed, quite like a plaster cast.
He seeks not what will be or is but only what is past.
A human petrification that has feldspar for a heart,
Sans bowels, sans charm and from humans set apart.
But Hubbard had one happy thought which he was pleased to tell:
They never reproduce he said and all will go to hell.
Since Hubbard's time the auditor "past middle age" retired,
But not until he left us with the paragon he sired.
A paragon who's human and is not a concrete post,
Who raised his sights to find out what his company needs most.
Who's shaken off the shackles that have bound him to the books,
Who altered his perspective and has modernized his looks.
He's warm and he is active, and commitment is his style,
Exchanging ancient wrinkles for the crinkles of a smile.
Not petrified but flexible, adjusting to the times –
To broader needs than merely counting pennies, nickels, dimes.
He's keeping up with management, with what is good and new,
And welcomes women auditors as equal partners too.
The auditor with green eye-shades is gone, we hope for good;
A problem-solving analyst emerges where he stood.
And Hubbard notwithstanding, in his or her eye there is a gleam,
That speaks of brand new paragons for the senior management team.

Larry Sawyer 1971

UNTITLED

How joyous and delightful is internal audit life,
Unmarred by any squabbles, any arguments, or strife.
A profession that is tranquil, far above the madding crowd,
Where every passing day with sweet serenity's endowed.
Oh, yes, a little cloud may mar the audit azure sky;
But nothing we can't overcome with that good old college try.
Like audit jobs that need two months to really do up right,
With budgets of just 14 days, or 15 if you fight.
And travel that they swore would be but 30 percent a year.
Sure that is just the time it takes to get from there to here.
The system calls for double checks before a payment's made.
You take their word and find too late \$10,000 overpaid.
You take a random sample, and you do it by the book,
Then miss that itty bitty fraud where you had failed to look.
The outside auditor's your friend; relations couldn't be better.
And then the sucker writes you up in his annual management letter.
You proudly give your draft report to your peerless supervisor.
He takes a close and careful look and blows up like a geyser:

"The format's all wrong, the thing is too long,
"The writing is lousy, and makes me feel drowsy.
"The thoughts don't flow, 'cause you jump to and fro.
"The grammar is bad, and the numbers don't add.
"Your sample's too small; it's not random at all.
"Your conclusions are wacky, your syntax is tacky.
"The reader must grope, 'cause you don't show your scope.
"And your punctuation is beyond explanation.
"Your whole report has no support.
"In just four short words, it's for the birds.
"So take it, Rover, and write it over."

By dint of blood and sweat and tears you get the draft okayed,
And then go on to draft review that's been too long delayed.
You're greeted by the auditees who remind you of Frankenstein,
And quarrel with each page and take exception to each line.
The floor is ankle deep in blood, the meeting's mean and wild;
Before the draft review is through, you're whimp'ring like a child.
The auditees make changes and you write down what they say.
Then take the changes to your boss who screams "Hell no! No way!"
You crawl back home to a loving spouse at the end of a factious day,
Who smiling very sweetly asks: "Did you have a lovely day?"
How joyous and delightful is internal audit life,
Unmarred by any squabbles, any arguments, or strife.
You give the game your very best, you play it to the hilt.

And cope with all that may befall, 'cause that's how character is built.

As published in the Internal Auditor, August 1983, page 20, included in an article entitled "Improving the Bottom Line" and referred to as a description of the internal auditor's life and times. Sawyer said in the article that the poem was written for a friend who was a professor of English literature and was unacquainted with modern internal auditing.

POEM WRITTEN TO SAWYER

UNTITLED

If we live to be 90.
We'll ne'er again meet
An auditor more gentle,
A spirit so sweet.

If we live to be 90,
We'll think of you still.
Serving great words of wisdom,
Our plates you did fill.

If we live to be 90,
We'll follow your step,
For you've modeled longevity
And a mind of great depth.

If we live to be 90,
You'll yet be our hero.
We'll honor this day
You turn nine and zero.

We're lucky to know you,
We really must say.
We love you, dear Larry.
Happy 90th birthday!

Written by Trish Harris, IIA staff member for Larry's 90th birthday.

APPENDIX H
THE GRANDFATHER SERIES:
LETTERS TO THE EDITOR

APPENDIX H

THE GRANDFATHER SERIES: LETTERS TO THE EDITOR

“Letters to the Editor,” The Internal Auditor, September/October 1973 issue, page 8-9.

To The Editor:

The Internal Auditor has made much progress in recent years as a recognized professional publication for professionals.

At a risk of being branded as one who considers such too seriously, it is my opinion that light prose is not an acceptable writing style for professional publications.

The topics, what Mr. Sawyer has to say, are of interest to me, but his writing style particularly Grandfather – Nephew – old sage – little boy routine strike me as insolent.

I am sure Mr. Sawyer could share his professional knowledge more effectively by “straight” writing style.

Sincerely,
James M. Mathews,
Staff Auditor
3M International

Response:

Dear Mr. Mathews,

The Editor asked me to answer your letter in which you objected to the Grandfather series. You wrote that “light prose is not an acceptable writing style for professional publications.” You added that the topics I write about are of interest to you, but that “the writing style particularly Grandfather-Nephew-old sage- little boy routine strike me as insolent.”

Truly, I would just as soon not have gotten involved, but since the ball was put in my court I felt impelled to pick up my racquet.

Alas, I know of two other people who feel much the way you do. One is my daughter Barbara, Randy’s mother. The other is my own Esther, Randy’s grandmother. When I showed them your letter – to let them know they have an ally – they said they were a bit

puzzled by the word “insolent.” They see it more as “flippant.” They’re also a bit puzzled by “Grandfather – Nephew” since they seem to think that “Grandson” would be more suitable in that context. But I know them to be great quibblers, and so you and I need not worry too much about their subtilizing.

They see no merit to such light prose in a grown-up professional publication. They summarily brush off my feeble comments about adding light where there has been murkiness – about getting our unheard message on internal auditing to our wives and children – about Shakespeare’s use of levity in his darkest dramas – that such magazines as Time and Newsweek have added lightness to their writing – that many of the Grandfather articles have been translated into other languages -- about the many laudatory comments I have received. But they pay me no mind.

So, your own objections now having swelled the ranks of the dissenters to three – that I know of – I thought it might be apropos to find out how representative this trinity was. So I wrote to a Regional Vice President, who could give me a grassroots feedback, and I also wrote to the Chairman of The Institute’s Publication Policy Committee, since he presides over the material that is published in The Internal Auditor.

The Regional Vice President answered: “. . . based upon my own personal poll I am confident that Mr. Mathews is speaking only for himself. Everyone I have talked to in the Chapter thinks that the Grandfather series in The Internal Auditor is excellent.

The Chairman, Publications Policy Committee, answered: “I feel certain that I can speak for all members of the Publications Policy Committee and state that we do not agree with the thoughts expressed by Mr. Mathews with respect to the Grandfather articles that have been published in The Internal Auditor. In every discussion that I can recall at our Committee meetings, everyone voiced the opinion that these articles were excellent and the methodology of your writing as most productive when putting your points across to our readers. It was, of course, because of our strong feeling concerning these articles that we unanimously recommended to the Board of Directors of the Institute that we publish a book of these articles which I believe is now in the final planning stages.”

Further, to show how seriously some people take these unserious articles, I am sending you a copy of a letter from The Department of the Air Force, Air University, Institute for Professional Development. The first sentence of the letter says: “We have selected as course reading material for Air University students an article by Lawrence B. Sawyer entitled Statistics Confuse Me. Grandfather.”

The letter went on to request permission to reprint and use the article for the purpose stated and the permission was granted. I shall always have a warm spot in my heart for the requester, Deputy Commandant, Colonel C. E. Dannacher.

Let me close by saying that you’re in select company, Mr. Mathews with my wife and my daughter, both of whom I love dearly and respect highly. Keep voicing your opinions, Mr. Mathews, and keep having the courage of your convictions. I respect that. And I

respect the high-mindedness that spurred you to write your note to The Institute for the purpose of assuring the continued professionalism of its publications.

Sincerely,

L. B. Sawyer

“Letters to the Editor,” The Internal Auditor, November/December 1973, page 8.

In answer to Sawyer’s response above:

Dear Mr. Sawyer:

I like your book “The Practice of Modern Internal Auditing.”

I avoided introducing myself to you at the Conference in D. C. since I did not want to give you an impelling cause to pick up your racquet again.

Best regards,

James M. Mathews

Staff Auditor, International Group, 3M Company

Response:

Dear Mr. Mathews:

I am truly sorry that you did not introduce yourself to me at the conference in Washington, D. C. I am in your debt and sincerely thank you for your letters and your kind comment regarding my book.

Your first letter criticizing the “Grandfather Series” gave me the springboard from which to launch my feelings about the series as well as the feelings of others, pro and con.

Something as unconventional as the “Grandfather Series,” in a serious professional journal, cries out for an airing; and you helped me provide the ventilation.

Cordially,

Larry Sawyer.

Editor’s Note: Mr. Mathews’ first letter and Mr. Sawyer’s reply were printed in the Sept./Oct. 1973 issue of The Internal Auditor. The two letters published in this issue seemed a fitting conclusion to their discussion.

“Letters to the Editor,” The Internal Auditor, May/June, 1974, page 9-10.

Editor’s Note: Reactions, pro and con, to the Grandfather Series continue to come in. This month’s “Letters” include two very strongly favorable opinions and another equally strong unfavorable opinion.

To The Editor:

The September/October issue of The Internal Auditor has only just reached me. Regarding unacceptable writing style for professional publications, I hope you can find space for further comment on this important subject, because I do not think Mr. Mathews’ serious comment has been dealt with in a satisfactory manner.

Some years ago, a highly respected writer to the Financial Press – the late Harold Wincott contributed a series of articles in The Financial Times in the U.K. He dealt with a variety of subjects in a lighthearted manner on “A Father to Son Basis.” These articles were both amusing and informative. When Mr. Sawyer’s “Grandfather to Grandson” articles first started to appear in The Internal Auditor, it appeared that he had possibly copied Mr. Wincott’s style but without the same success. I do not find the articles amusing and though I wouldn’t say they were “insolent,” I certainly found them irritating. The technical content is good, but the style (for me) detracts and reduces the impact.

I have great respect for Mr. Sawyer’s work but I feel that you have seriously erred in asking him to reply to a piece of honest criticism on style, which in my opinion, is quite justified. By all means, obtain his opinion but the reply should have been given by the Editor. If Mr. Mathews was challenging the technical content or an accounting principle it would be a different matter. The articles in The Internal Auditor are generally of a very high standard and I particularly enjoy the Round Table and its standard should not be lowered.

His pompous reply is extremely disappointing – a light hearted response would have been sufficient. Instead, the heavy artillery has been brought to bear coupled with thinly veiled sarcasm (swelled the ranks of the dissenters to three). Was it really necessary to consult the Regional Vice President and the Chairman of the Publications Policy Committee and if so, why stop there? Why not a worldwide referendum to all members of the Institute of Internal Auditors? Even so, some of the heavy weight support appears unsatisfactory when one lobbied supporter claims confidently that Mr. Mathews is speaking only for himself and another “feels certain that he can speak for all members of the Publications Policy Committee.” In view of the general high standards achieved in The Internal Auditor, this seems unbelievable. The Chairman doesn’t say he has consulted all members and they have authorized him to make the statement on their behalf!

I, personally, would much prefer Mr. Sawyer to change to style of this particular series and then we can all enjoy the technical content of his articles. I’m afraid if he does not, I will continue to follow his example (stated elsewhere) concerning unacceptable material and throw it (figuratively) into the wastebasket. I would not presume to speak for any

other members but shall be very surprised if a number of other readers do not agree with Mr. Mathews and myself about this particular series of articles.

K.W. Harding
Paget, Bermuda

To The Editor:

Please permit me to give you my opinion on Mr. Mathews' letter (October 1973 issue, page 8). I wish to express a totally different point of view.

The articles of Mr. Sawyer explain a rather intricate matter in an informal tone.

I appreciate this the more since Anglo-American technical literature is often serious and clumsy, Germanic and as indigestible as a paving stone.

R. Pain – Savanier
Paris Chapter

To the Editor:

The purpose of this note is two-fold: One – I wish to congratulate you for the contents of the September/October 1973 issue . . . Two – I candidly admit having enjoyed and benefited from Mr. Sawyer's Grandfather Series. I disagree with Mr. J. N. Mathews' comments. If Sawyer could write only in the so called light prose style, he might deserve some criticism from a serious writer/reader. But this is not the case, as evidenced by different articles he has published (not considering his latest book). There can be no doubt that the Grandfather writings purposely follow a somewhat informal style, accessible to all. I am certain that if we tried our skills on this, many of us could not do as well.

A. de Leon C.
E. R. Squibb & Sons de Mexico,
S. A. de C. V.
Mexico.

Editor's Comment – I wish to thank both Mr. Mathews and Mr. Sawyer for their part in provoking an unprecedented level of interest in one specific subject area of The Internal Auditor.

“Letters to the Editor,” The Internal Auditor, September/October 1974, page 8.

To the Editor:

After reading the March/April issue, I would like to comment on continued publication of the Grandfather series.

This set of articles has dealt with Internal Audit subjects on a light prose level over the past several years. It will soon appear as a paperback publication of The Institute. I believe the time has come to hear from other authors who wait, sometimes over a year, to have articles published. The need to continue hearing from a cross-section of authors is vital to providing a mix of ideas in The Institute’s professional journal.

If these authors feel that space is granted to only a few, their desire to contribute may be stifled.

O. E. Raffensperger
Milwaukee Chapter

“Letters to the Editor,” The Internal Auditor, January/February 1975, page 10-11.

To the Editor:

I believe you (Mr. Lawrence B. Sawyer) have chosen an unfortunate example to illustrate a point in your article “What’s The Internal Auditor’s Responsibility For Preventing and Detecting Fraud, Grandfather?” of the “Grandfather Series,” in the May/June 1974 issue of The Internal Auditor.

On page 74 the persona of the duologue create an analogy based on the stereotyped conventional female-role “mother and housewife” image. Perhaps you are not aware that it is just this kind of thinking that can make the contemporary female in today’s world (yes, in the business world – yes, reading your specialized Journal) “blow her stack,” to borrow your phrase.

I am not affiliated with any vocal liberation organization but I was personally offended by the assumptions this story is based on and the stereotype it perpetuates.

Traditional restriction of the wife and “mom” to housework, grocery shopping, meal preparation and automatic chauffeur service is out-of-date at a time when women are expressing their human rights and freedoms in unique and self-expanding endeavors. Your choice of illustrative narrative is undesirable as it is yet another manifestation of the narrow-mindedness inherent in the tradition of taking such things for granted.

No, Mr. Sawyer, women’s liberation is not some fabricated concern of distant rabble-rousers nor is it a fantasy of the mass media. Human rights are not a slogan created for

campus protestors – it is a cause which needs consideration in all environments. It is not something to merely read about, but something you can personally be involved in through your publications and everyday inter-personal communications in dealings with business associates, family, and friends.

That is what our consciousness-raising is all about.

Sincerely,
Ellen Redding

Editor's Comment – I am very pleased to be able to publish the position so eloquently expressed by Ellen Redding. It is with great anticipation that I look forward to seeing how Mr. Sawyer gets himself out of this one. A letter such as this certainly deserves a response, and I am sure Mr. Sawyer will not leave these questions and challenges unanswered.

For the benefit of those who may have missed or overlooked it, the following paragraphs from the article in question are those being challenged by the writer:

“You mean like my Mom's housekeeping? Just about. It's wonderful for your Mom to work in pottery, jewelry, and painting and to go scuba diving, skiing, and sailing. But what happens if your Dad would come home and find the house a mess, the cupboard bare, dinner not on the table, and Popi ill because he wasn't taken to the vet? . . . The housekeeping comes first. And I've got to say that she never forgets it.”

“Letters to the Editor,” The Internal Auditor, March/April, 1975, page 11-13.

“Grandfather” Responds to Chauvinistic Charge

Last month, we published a letter from one of our female readers who expressed dissatisfaction with certain analogies used by Larry Sawyer to illustrate an audit philosophy. As we anticipated, Mr. Sawyer did respond. While the letter is rather lengthy, editing was rejected because of the sensitivity of the issue involved and the fact that the letter represented as a discussion of the issue rather than a rebuttal to the position taken by Ms. Redding. Accordingly, we felt that editing might possibly do a disservice to the reader, Ms. Redding, and to Mr. Sawyer. The following is the complete text of Mr. Sawyer's letter to Ms. Redding in response to hers, which was published in our last previous issue.

Dear Ms. Redding,

Your letter about my “Grandfather” article on the internal auditor's responsibility for the prevention and detection of fraud was sent to me by Don Anders, director of communications for The Institute of Internal Auditors. He asked me to answer your letter if I had the time. I'll make the time; your compelling, articulate letter demands a response.

I agree completely that it is a disservice to any sex to differentiate unfairly between the status, accomplishments, and potentials of men and women. This was never my intent. If through error or forgetfulness I slipped unwittingly into a chauvinistic phrase, I beg the pardon of all the competent women who are doing as great or better work in the arena of business and government as their male counterparts.

As to the specific point I made in my article, I believe it warrants some discussion. I considered my exchange with Randy an apt, simple, understandable analogy. We were talking about the internal auditor's responsibility for "housekeeping" no matter how exotic or advanced some of his activities may be. And what would be more natural for Randy to understand than an analogy so close to home?

Indeed, when the article was in draft, I showed it to Barbara, Randy's mother. When she came to the passage that troubled you, she had a momentary hesitation. There came to her mind the thought that it could possibly cause offense to proud capable working women. But she decided to raise no objections for two reasons. The first is that she knows I am not a male chauvinist and that my admiration for women who fight the good fight in the arena is unquestioned. The second came out in our family council.

When I received your letter and felt it warranted response, I got my whole family together; Barbara and her husband, Harvey; my younger daughter Linda and her husband, Joe; and Randy and Karen.

Both men said that I should answer your letter and seek to assure you that I had meant no insult. Neither of the two men has a male/female hang-up. Joe is a professor and researcher in biology. He hires and retains research assistants who are competent – the only criterion. Harvey imports and sells art objects. He deals as shrewdly with women as with men. He asks and gives no quarter, no matter who he deals with. His admiration for a person who is good in business is engendered by their competence – not by their sex.

Strangely, my girls – strong individuals, competitive with men, no pliant, eye-batting females they – took another position. This was when Barbara advanced her own argument with Linda, concurring:

"When I married Harvey," she said, "I entered into a partnership. I chose at the outset to keep house as my part of the partnership. I could have worked; and if I wanted to, I still could. I could have competed with men, and I feel competent enough to deal with them as individuals. But that's not what I want. I want my job to be taking care of my home and family while still doing creative work that fulfills me. But my busy job is taking care of my family. If I do it right, I am doing my job – a worthwhile job – and everyone is satisfied. If I do it wrong, I should properly be criticized, no matter what peripheral activities I engage in. I keep a good house. I'm proud of it. I consider my job coequal with Harvey's."

“Harvey’s job is to bring in the money to keep us clothed, fed, sheltered, and comfortable. In fact, if Harvey spent a day working on a ring and neglecting his job, I’d feel the same way as the Harvey in the ‘Grandfather’ article would react. I hear what Ellen Redding has to say, and I think I can understand her. But the exchange in the article was about Randy and me specifically, and as such it is a good analogy.”

Linda, in addition to keeping house, runs a little business of her own. She said that she can take care of herself very nicely and doesn’t worry about keeping score between men and women. She said that she doesn’t need anyone placarding her rights. She concluded by saying that the day she couldn’t handle her own self-respect and compete successfully with any man, she’d turn in her feminine identification card.

My own position is perhaps between my daughters, on the one hand and my sons-in-law (I think of them as my sons) on the other.

As a human being, I support and applaud equal pay and equal treatment to either. In fact, the very idea of “sides” troubles me. As an author, I shall say what I feel is necessary to make a point or to communicate an idea. Mine is the ultimate responsibility. So, mine must be the ultimate authority. The analogy I made in the article is true to life. I felt in my bones that it was appropriate. I don’t see how I could change it or reject it. I don’t see how I could alter it to please some group and still convey what I had in mind under the circumstances of this particular dialogue.

I trust you can understand my views just as I understand yours.

Sincerely,
L. B. Sawyer, Consultant
Education-Management,
“Grandfather”

“Letters to the Editor,” The Internal Auditor, May/June 1975, page 11.

The letter that follows is the third in the exchange between Ms. Ellen Redding and Larry Sawyer.

Dear Mr. Sawyer:

I appreciate your prompt and gracious reply to my letter. Your rebuttal convinced me that you are an open-minded and conscientious person.

It is a pleasure to see such evidence of a united family, made up of strong and unique individuals. Your daughter's comments and your support are to be admired and applauded.

Your personal explanation reveals, as your publication did not, that there is no further issue to be made against you on this point. But it was certainly worthwhile investigating your thoughts! Perhaps they would be equally enlightening for readers of The Internal Auditor.

Sincerely,
Ellen Redding

"Letters to the Editor," The Internal Auditor, July/August, 1975, page 11.

To the Editor:

The publication of the unedited letter from Larry Sawyer to Ms. Redding was a disservice to the readers of The Internal Auditor and Larry Sawyer.

An author may write what pleases the author, but every author needs an editor; and editors need readers. I have expressed my views concerning the Grandfather Series and add that Larry Sawyer's verbose and immodest letter writing requires editing – a liberty I have taken.

Respectfully,
J. M. Mathews,
Audit Manager
Foreign Sales Subsidiaries
3M Company

Editorial Comment – Mr. Mathews recommended the deletion of all of the material dealing with Mr. Sawyer's discussion with his family. While we appreciate the opinion expressed by Mr. Mathews, we feel the logic that prompted our original decision to print the letter in its entirety was and is correct.

To the Editor:

The criticism voiced by Ms. Redding over Mr. Sawyer's use of a mother's accepted role in the home ("Grandfather" episode appearing in the May/June, 1974 issue) was completely unjustified. Moreover, the introduction of the question of human rights was completely irrelevant.

For those women who have a vocation for marriage, housework is a noble and laudable profession – there is nothing demeaning about it. Those of us who recall how our own mothers cared for their homes can attest to this fact.

If Ms. Redding is concerned over discrimination existing in the business and professional worlds, I can share her anxiety. But in the areas involving manual labor, dangers, and long hours extremes should be avoided if the doctrine of human rights is not to be made meaningless. Although the work is not dangerous, consider, as an example, the sad sight of a woman wearing a male letter carrier's uniform, dragging a heavy sack along the street; it would seem to be that most women would be glad that men have a monopoly on dangerous and/or dirty jobs!

Sincerely yours,
Willard J. Murphy, CIA
Dumont, New Jersey

"Letters to the Editor," The Internal Auditor, November/December, 1975, page 12.

More Grandfather Sentiment

A cartoon was submitted with talking heads and the following conversation:

Hi Mary Sue.
Oh, Uncle Sam, What's an Internal Auditor?
Well, Mary Sue, an internal auditor is like a farmer.
A farmer, how come Uncle Sam?
His job is to dig and do his spade work.
What else? Uncle Sam?
Then Mary Sue, he plants ideas.
Does he have to weed too? I hate that.
Yes, he must weed out the bad so the good ideas he planted will grow.
What Grows?
His company because he has been creative and watchful.
Oh brother, and you say Larry Sawyer is corny!
Grandfather most certainly is!

Howard Knox, CIA
American Mutual Insurance Co.
Wakefield, Mass.

APPENDIX I

PREFACE TO THE BOOK MODERN INTERNAL AUDITING:
WHAT'S IT ALL ABOUT? THE GRANDFATHER DIALOGUES

APPENDIX I

PREFACE TO THE BOOK *MODERN INTERNAL AUDITING: WHAT'S IT ALL ABOUT? THE GRANDFATHER DIALOGUES*¹

Why the “Grandfather” Series?

We wrote these dialogues in an effort to bring lightness and levity to some weighty and sober subjects. Lightness, not superficiality. Absence of pedantry, not lack of soundness; because each of these dialogues is founded on accepted theory or actual practice.

Too long has internal auditing and all the many tools it uses been made to seem arcane by bookish writing. Too long has our profession been equated with accounting, and regarded in the eyes of the public as an attempt to see that dreary columns of figures have been added correctly. Too long does the acknowledgment that one is an internal auditor produce either a blank stare and a noncommittal “Oh,” or a cheerful, “Of course, you’re an accountant.” Too long have our spouses and offspring hesitated to tell their friends what we do – either because they do not understand modern internal auditing themselves or because they do not know how to explain it.

¹ Lawrence B. Sawyer, “What’s an Internal Auditor, Grandfather?” *Modern Internal Auditing: What’s It All About? The Grandfather Dialogues* (Orlando, Florida: The Institute of Internal Auditor, Inc., 1974), preface.

So these dialogues have a two-fold purpose. One, to make more comfortable in the hand of the practitioner some of the tools he has been or should be using. Two, to tell our story – an exhilarating story that cries to be told to the nonpractitioner.

The nonpractitioner can read the articles as light prose and get a look through a new window at a truly exciting profession. While the substance of the articles is sound, the explanations should be reasonably clear to the reader. Randy, my 15-year-old grandson, has read every one of them. And although he was unable to grasp all the concepts fully, he was always able to prove on questioning that he got the drift. And it is a good thing, we think, to try to reach our youngsters especially. When they learn that there is such a profession as internal auditing – with all the opportunities for an absorbing and rewarding way of earning an excellent livelihood – they may place it alongside of law and medicine as one of the prestigious occupations.

For the practitioner there are strong roots and branches supporting the garlands of frivolity. We were delighted to see permission granted to the department of the Air Force, Air University, Institute of Professional Development, to use “I’m Confused About Confidence Level and Precision, Grandfather,” originally published as “Statistical Sampling Confuses Me, Grandfather,” as course material.

The articles in this book are varied and give an overview of many areas of our work. “Modern Internal Auditing” What’s it all about?” puts our profession in perspective and shows how it has been elevated far above the barren ground of old-fashioned figure checking. The articles on audit programs and deficiency findings are workable and useful. The articles on fraud and evidence are legally sound and synthesize some of the principles the auditor should be guided by. The articles on sampling, both

statistical and nonstatistical, are accurate, yet readily understandable. Those on EDP provide basic grounding and hints of audit approaches. The article on problem solving gives unique answers to old questions. The articles on operations research pierce the murky fog that too often has shrouded this potentially valuable instrument for service to management. The articles on getting along with people contain the ingredients of sound behavioral science theory, leavened by the yeast of actual experience in the practice of modern internal auditing. The articles on reporting are bottomed on years of successfully getting through to management. And, finally, there is a glimpse of what the future should hold for the internal auditor.

True, our profession is still growing and is still trying to become a rugged trunk for the tree of modern internal auditing. But roots and branches have a tendency to go in different directions. So there are bound to be disagreements with some of the pontifications uttered to Randy. But dispute is the mother of clarification. And clarifying out principles and standards is a consummation devoutly to be sought. Hence, to that ultimate clarity, and to the understanding that follows it, this book is dedicated.

Larry Sawyer

APPENDIX J

EXERPT FROM CHAPTER ONE

“WHAT’S AN INTERNAL AUDITOR, GRANDFATHER?”

APPENDIX J

EXERPT FROM CHAPTER ONE
“WHAT’S AN INTERNAL AUDITOR, GRANDFATHER?”¹

‘What do you do for a living, Grandfather?’

‘I’m an internal auditor, Randy.’

‘What’s an internal auditor, Grandfather?’

‘He’s the eyes and ears of management.’

‘You mean you’re a spy?’

‘Of course not! What gave you that idea?’

‘But Grandfather, you said –‘

‘I know what I said. A spy goes around hiding in the shadows. He gets information by stealing it. He never lets people know what he’s doing or what he’s found.’

‘Okay, Grandfather, but the spy is still using his eyes and ears.’

‘Sure. But for a different purpose. The internal auditor uses his eyes and ears to find out what’s going on. But he doesn’t hide what he’s doing. And he doesn’t do it behind anyone’s back. If he finds out that something is going wrong, he lets everyone know about it so that it can be fixed.’

‘Who’s everyone?’

¹ Lawrence B. Sawyer, “What’s an Internal Auditor, Grandfather?” Modern Internal Auditing: What’s It All About? The Grandfather Dialogues (Orlando, Florida: The Institute of Internal Auditor, Inc., 1974), p. 2 – 5.

‘Usually the people who are doing it wrong and the manager for whom they’re working.’

‘What’s a manager, Grandfather?’

‘A manager is someone who gets things done.’

‘I get things done when I strike out a batter. Am I a manager?’

‘Not exactly, Randy. A manager gets things done through other people. Like the coach on your baseball team. He doesn’t strike out the batter himself. He does it through you.’

‘But if I’m doing something wrong, the manager would know about it. He wouldn’t need anybody else to be his eyes and ears. He’s got his own.’

‘Right. But that’s because he doesn’t have many people to worry about. He can watch them himself to see how well they’re doing, tell how good their equipment is, and see if they have enough equipment. But in the big company that I work for, there are an awful lot of people and there is an awful lot of equipment. The manager is no longer close to what’s going on.’

‘Then how does he do his managing, Grandfather?’

‘He tells people what he wants done, and then he asks them how they’re doing.’

‘That seems like a good idea. So why does he need you, Grandfather?’

‘Well, things don’t always go the way they’re supposed to, Randy.’

‘I don’t understand.’

‘Let me put it this way. If you have a small group of people, like a baseball team, the manager knows exactly what’s going on. He knows everybody’s name, even the bat boys, and the popcorn salesmen, and the groundkeepers. He knows all about the training

camp, and the advertising, and the batting averages. If you ask him how Sam Slugger is batting, he'll tell you right off, .319. If you tried to fool him and said Sam's batting average was .349 he'd know you were wrong because he's been watching Sam bat at every game.'

'Why is it so different in a company like yours, Grandfather?

Because my company is like a hundred baseball organizations all rolled into one. And much, much more complicated. The manager wouldn't be that close to what's going on. You mean you'd go and check on the batting averages and tell the manager if they were right?'

'That's very good young man. That's what an internal auditor would do.

So you check figures, huh, Grandfather?'

'My boy, you don't know it, but you've cut me to the quick. To imply that an internal auditor is simply a figure-checker is a low blow. But Grandfather, you said – I know what I said. But today, checking figures is just one small part of the internal auditor's job. There are many other things that he has to do.'

'You mean that here was a time when he only checked figures?'

Yes, indeed, Randy. And unfortunately many internal auditors even today just check figures. Which is a shame. Because there is so much more they can do for their managers.'

'Has internal auditing been going on for a long time, Grandfather?'

'Oh, yes. Way, way back in the days of the feudal barons they realized that they needed someone they could trust to check on the work of others.'

'Back in the days of Richard the Lion Hearted?'

‘Yes. And even before that. But the person who did that kind of checking was protecting this employer against errors or theft. Like a watchdog.’

‘Is the internal auditor still a watchdog, Grandfather?’

‘When he has to be. But he’s become more than that’

‘How did he get to be more?’

‘Because Randy, there was a desperate need for him. When business became so big that the boss couldn’t go around himself to find out what was going wrong, he started using the internal auditor.’

‘Why did he pick the internal auditor?’

‘I think it was a combination of special circumstances – of a manager who couldn’t turn anywhere else and of an auditor who jumped at the chance to show what he could do.’

An example is given then the chapter concludes with grandfather summarizing the work of an internal auditor as follows:

‘Hey, Grandfather, that’s kind of exciting.’

‘You bet, Randy. Internal auditing, as it should be practiced today, is a very exciting profession. Every job the internal auditor does is different. Everyday brings new opportunities to help the boss and improve the company’s profits. Every week brings the internal auditor face to face with new people and new problems; and every problem is like a mystery that has to be solved. He can go anywhere in the company and talk to anyone he wants to. He can bring new ideas to old departments. He can come like a fresh breeze that sweeps away the cobwebs of delay, decay, and inaction. He can turn the searchlight on tired, ineffective, inefficient methods. He can ask questions. Like

“why,” and by asking the right questions he can get people to see for themselves what changes should be made. He’s big enough and sure enough of himself so that he can compliment someone who’s done a fine piece of work, and he moves around enough so that he can tell others about it so that they can try it too. When he does the kind of job he should be doing , he’s treated with respect by employees, supervisors, managers, and officers. He gets to think like a manager, and often he gets to be a manager himself. The profession is exiting, and the opportunities for service are unlimited.’

‘Gee, Grandfather, instead of a baseball pitcher, maybe I’ll become an internal auditor when I grow up.’

‘You could do worse, Randy, you could do much, much worse.’

APPENDIX K
CHRONOLOGICAL TIMELINE OF SIGNIFICANT ACTIVITIES
OF THE INSTITUTE OF INTERNAL AUDITORS

APPENDIX K

CHRONOLOGICAL TIMELINE OF SIGNIFICANT ACTIVITIES OF THE INSTITUTE OF INTERNAL AUDITORS

(Source: http://www.theiia.org/index.cfm?doc_id=4929, updated with reference to Dale L. Fleisher's Institute of Internal Auditing: 50 Years of Progress Through Sharing)

- 1941 Victor Brink's book is published.
The IIA is established.
- 1942 First annual conference is held at the Biltmore Hotel in New York City.
The New York Chapter is formed.
- 1944 Internal Auditor journal is published for the first time.
- 1947 The Statement of Responsibilities of the Internal Auditor is issued.
- 1955 Progress Through Sharing is adopted as the IIA's official motto.
- 1957 The statement of Responsibilities of Internal Auditing is revised to include more responsibility for operational areas and a service to management focus.
- 1964 Bradford Cadmus published Operational Auditing Handbook.
- 1968 The Code of Ethics is approved.
- 1969 The board approves plan for the certification program.
- 1971 The Statement of Responsibilities of Internal Auditing is revised to denote a more comprehensive nature with less emphasis on accounting and finance.
- 1972 The Common Body of Knowledge is adopted.
- 1973 The first Board of Regents is appointed.
The Certified Internal Auditor (CIA) program is established.
Over 8,000 CIAs are grandfathered in.
- 1974 The first leadership conference is held.
The first CIA examination is given.
- 1976 The Foundation for Auditability, Research, and Education, later known as the IIA Research Foundation is founded.
The Statement of Responsibilities is updated to make it gender neutral.
- 1977 The Foreign Corrupt Practices Act is passed.
The first Systems Auditability and Control report is issued by the Research Foundation.
- 1978 The Standards for the Professional Practice of Internal Auditing are approved.
- 1981 Continuing professional development is approved for CIAs.
The Statement of Responsibilities of Internal Auditing is revised to reflect a service to the organization focus and to include a role as councilor to management.
- 1984 The Quality Assurance Review Manual is published.
The first Statement on Internal Auditing Standards is published.
A pilot school is established at Louisiana State University.
- 1985 The Quality Assurance Review Service is established.

- 1986 The target school program is started.
The Leon Radde Outstanding Educator Award is established and presented for the first time.
- 1987 Mandatory continuing professional development for CIAs is approved.
The Treadway Commission report emphasizes importance of internal auditors.
- 1988 The Field Service Representative Program is established.
The Code of Ethics was revised to include both CIAs and non-CIAs.
- 1990 The new Systems Auditability and Control project is started.
The Statement of Responsibilities is updated.
The IIA introduces the audit group membership program.
- 1991 The IIA holds its 50th anniversary conference in New York.
- 1992 The Common Body of Knowledge is updated.
- 1993 Gain program is launched, a member survey and information sharing program for benchmarking purposes.
- 1998 Certified Government Auditor Professional examination is approved.
- 1999 New definition of internal auditing is approved. Certification in Control Self-Assessment is offered.
- 2000 CAE Services Program is launched. New standards are introduced. Certified Government Auditor Professional designation is introduced.
The Code of Ethics is revised to apply to all internal auditing professionals.
- 2002 Standards become mandatory guidance for all IIA members and CIAs.
- 2003 New Professional Practices Framework is issued. A new Global CIA syllabus is unveiled.

APPENDIX L
PHOTOGRAPHS OF
LAWRENCE B. SAWYER



Figure 1

Lawrence B. Sawyer



Figure 2

Lawrence B. Sawyer Award Winner

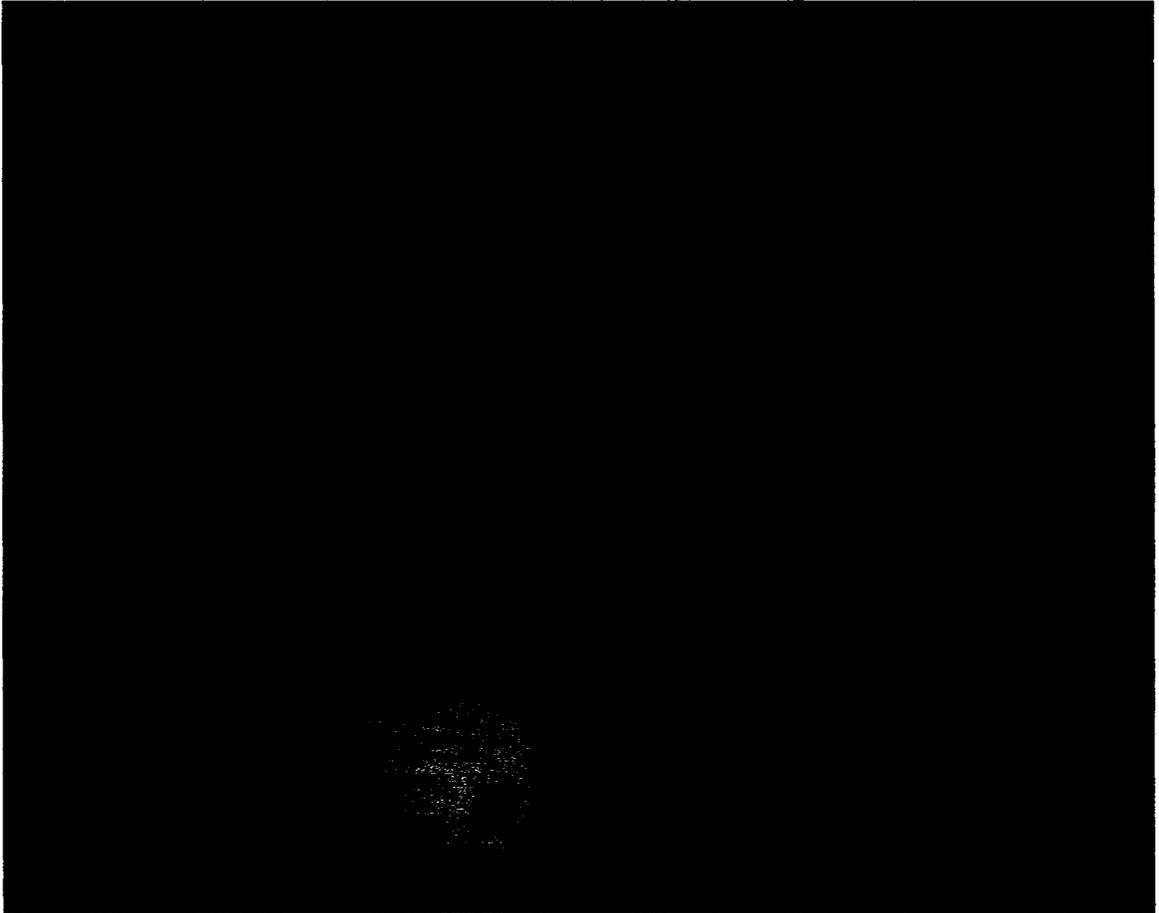


Figure 3

Another Lawrence B. Sawyer Award Winner Accepts



Figure 4

Sawyer in his Office



Figure 5

Sawyer at Home at the Podium

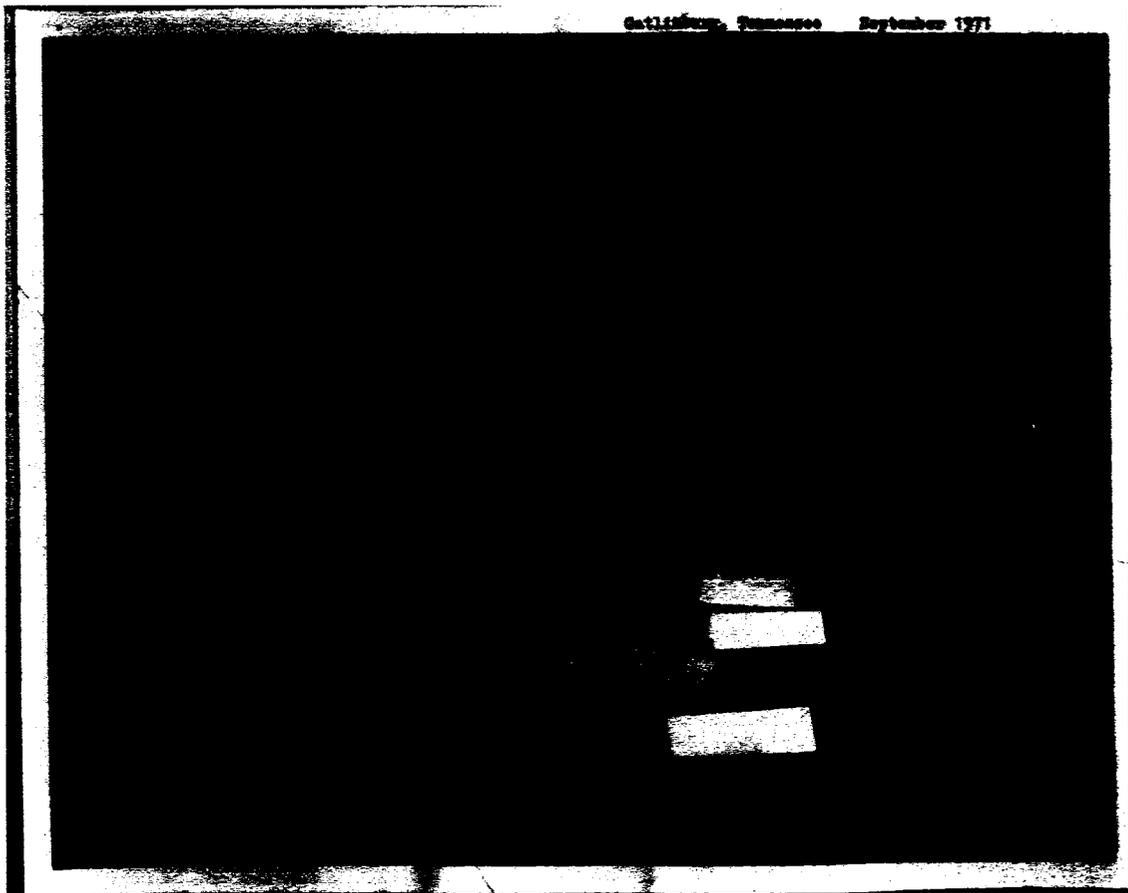


Figure 6

Sawyer Speaking at a Conference

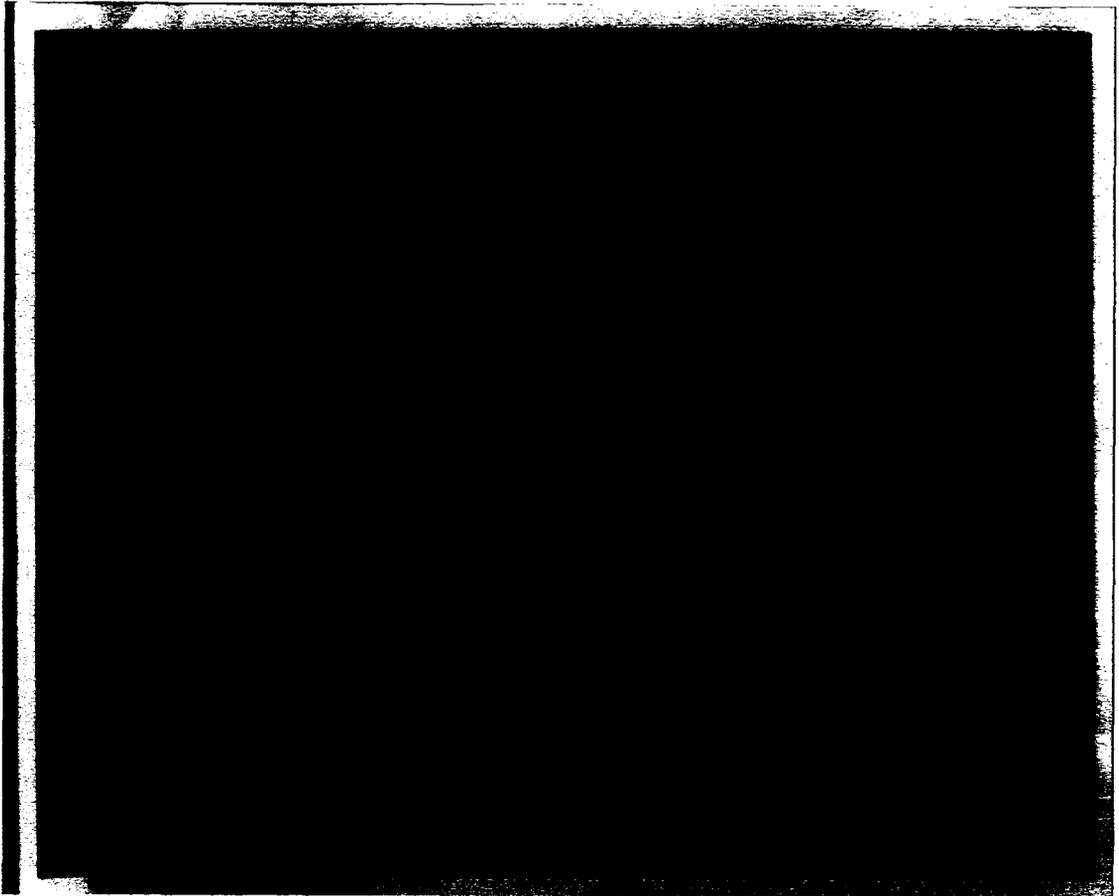


Figure 7
Sawyer as Speaker

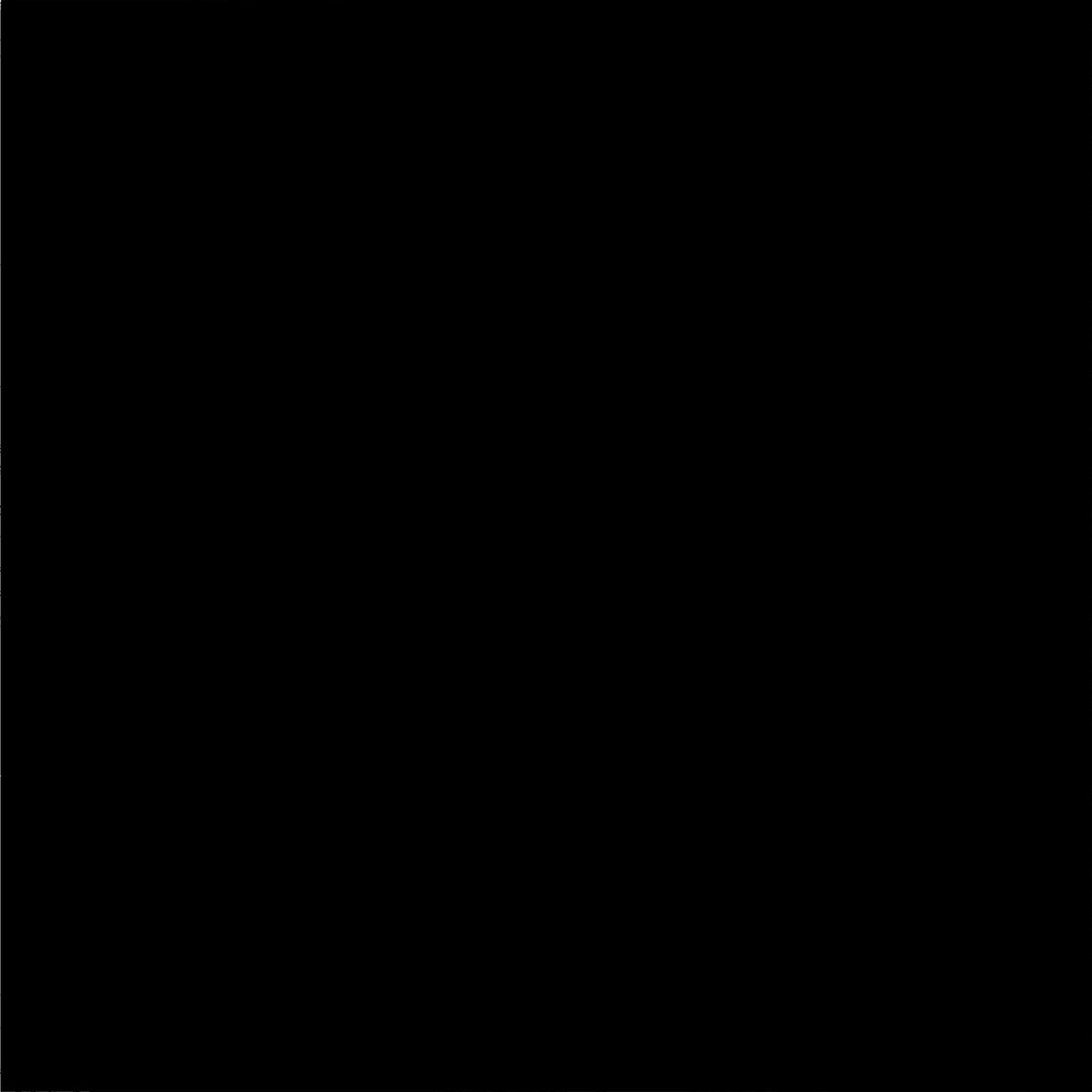


Figure 8

Mr. and Mrs. Lawrence B. Sawyer

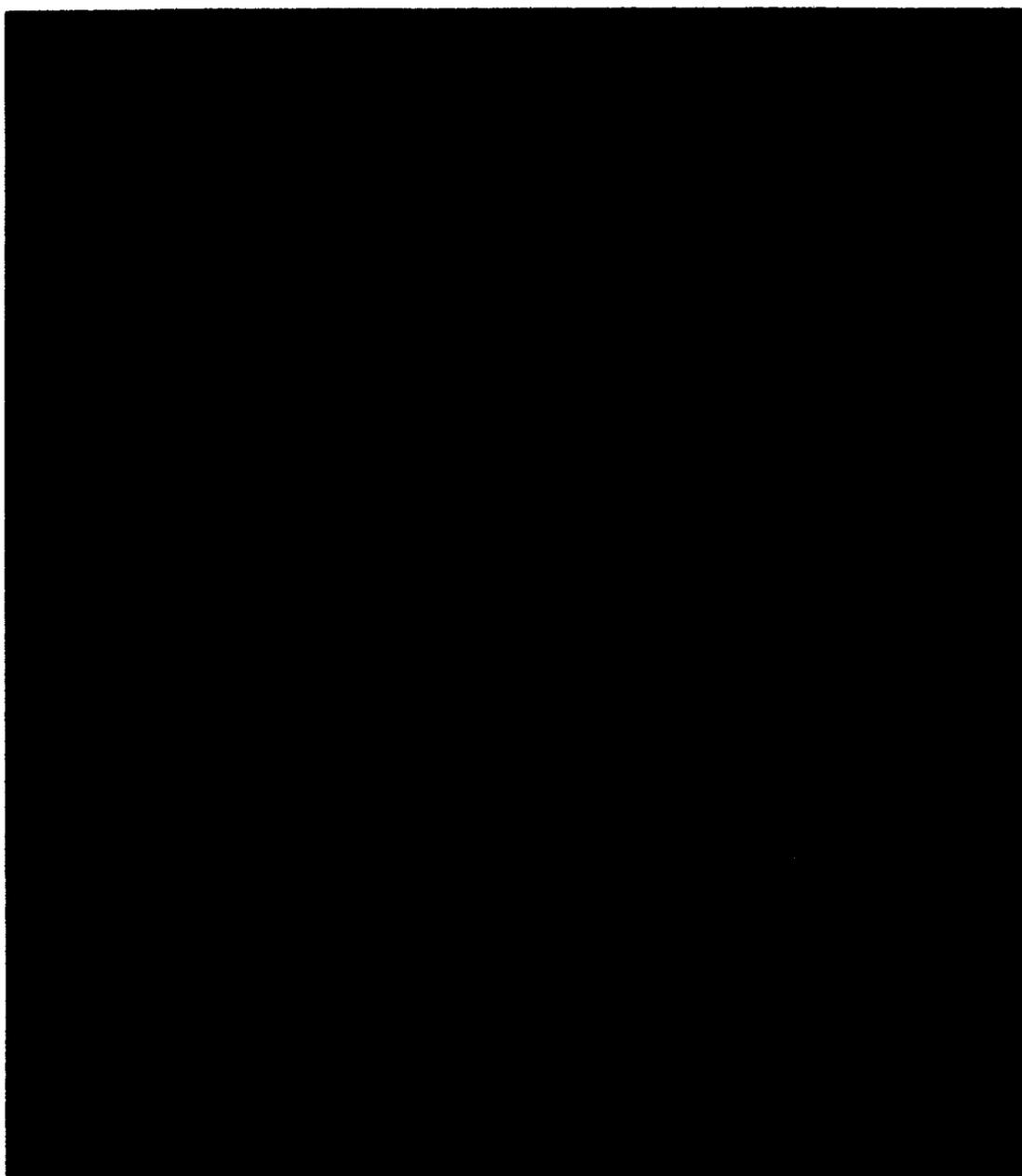


Figure 9

Larry at Ease Being Interviewed



Figure 10

Getting Ready For the Stage

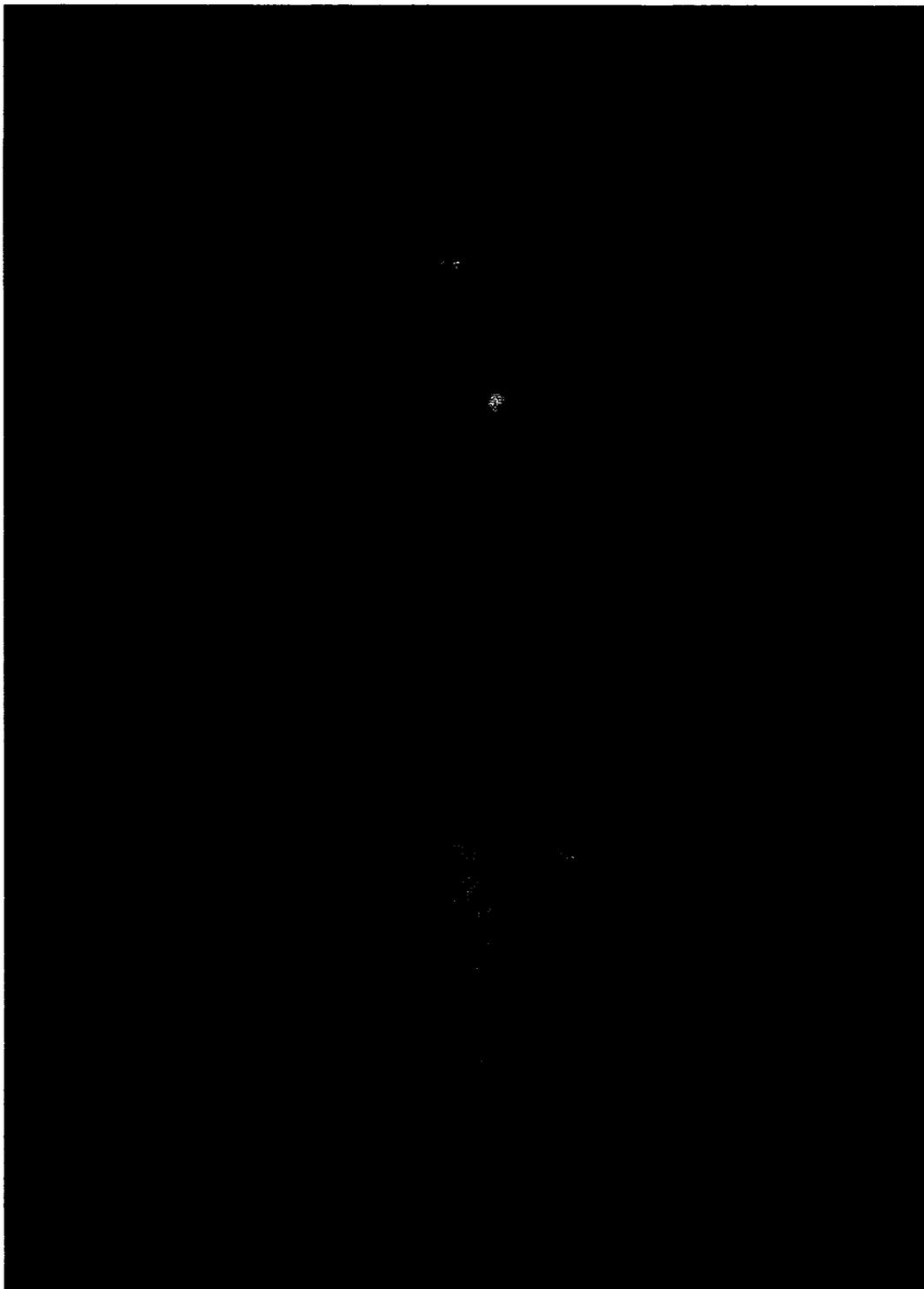


Figure 11

Sawyer the Actor and Singer

440

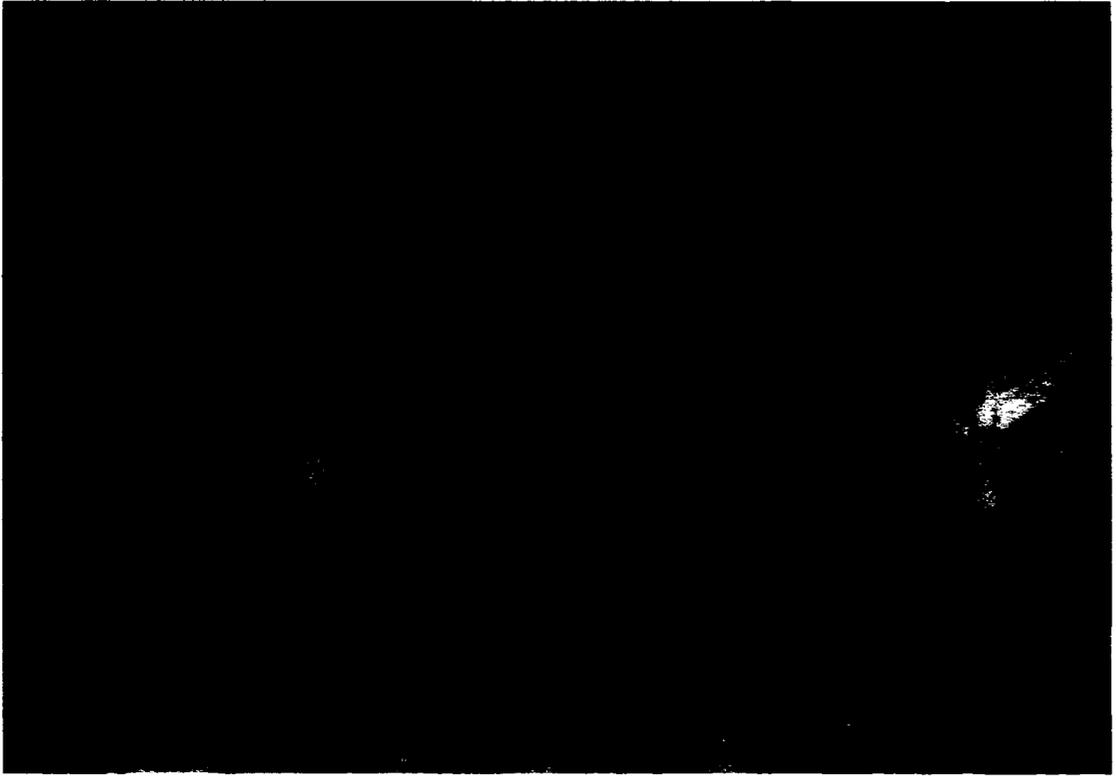


Figure 12

Larry and Esther, a Celebration



Figure 13

Sawyer Accepts an Outstanding Contributor Award

442



Figure 14

Proudly Accepting the Victor Z. Brink Award, 1993



Figure 15

Sawyer Presenting with a Flip Chart

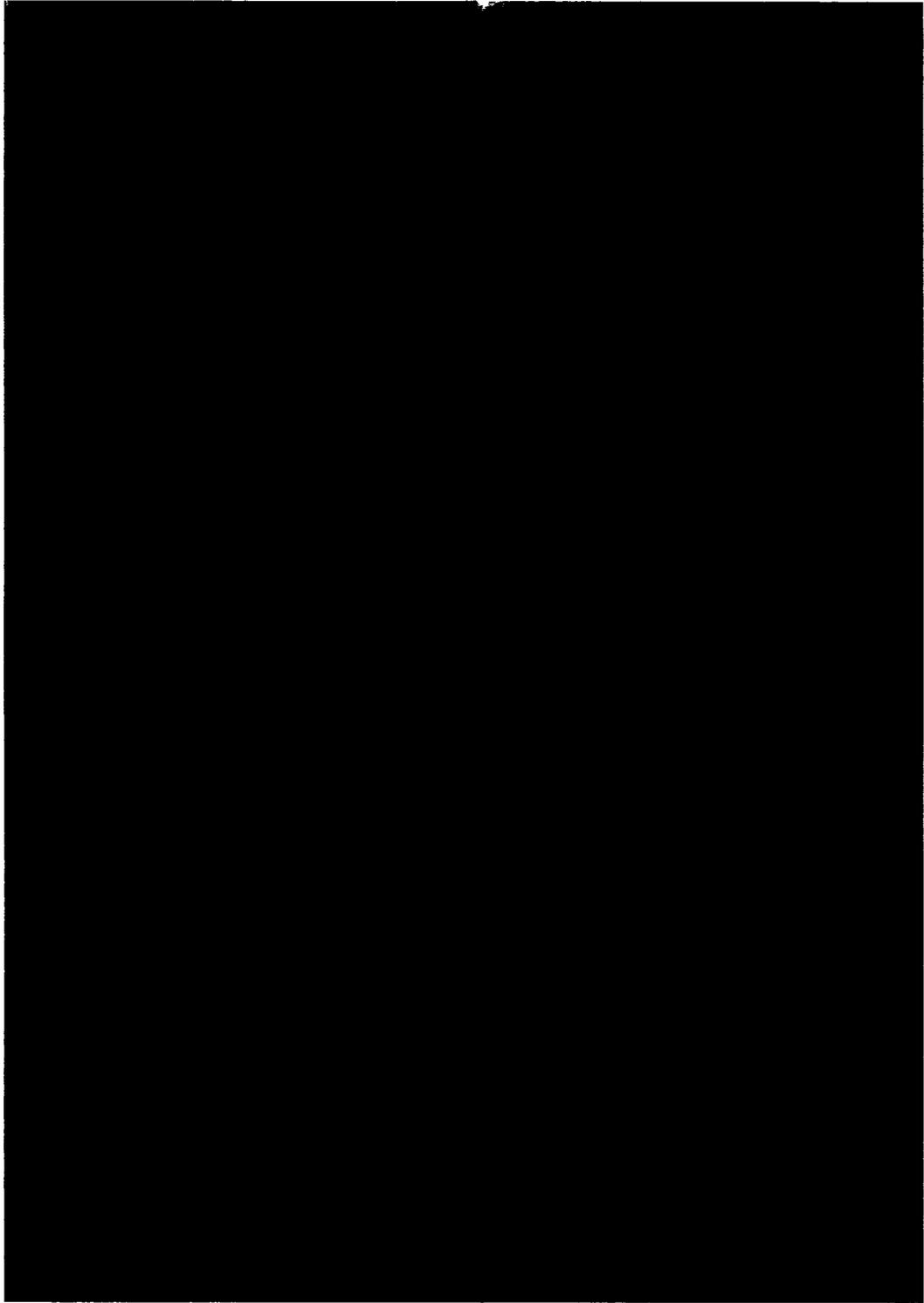


Figure 16

Sawyer as a Younger Man

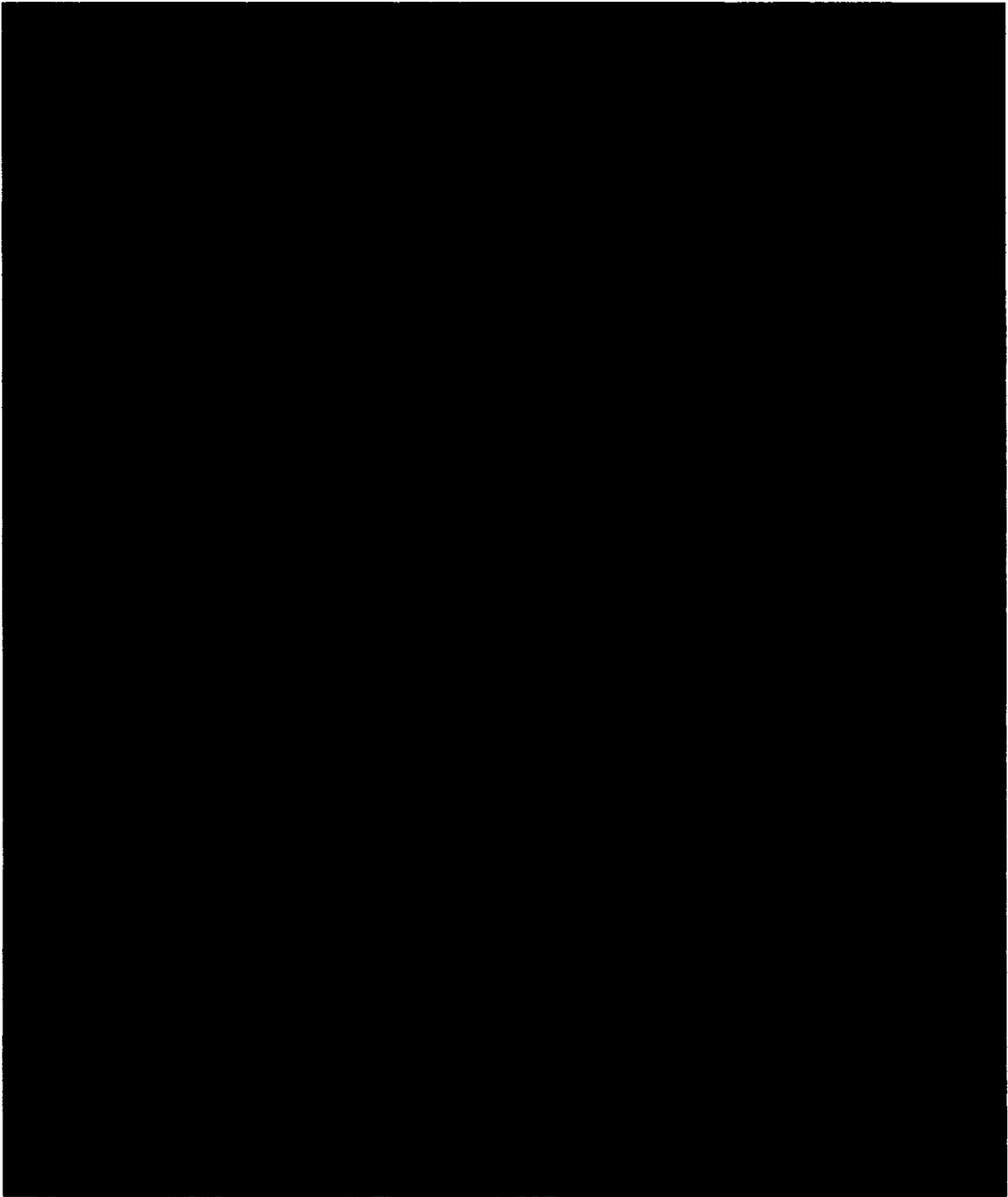


Figure 17
Preparing to Speak

BIOGRAPHICAL SKETCH OF THE AUTHOR

Nina Marie Goza, daughter of Bert and Dorothy Wells, was born in Newport, Arkansas on December 20, 1959. She graduated from Bradford High School in 1978. She attained a Bachelor of Science Degree with a major in accounting in 1982 from Arkansas State University. In 1992, she received a Master of Business Administration Degree from the University of Central Arkansas.

Ms. Goza began her career working with a local accounting firm for the 1983 tax season. She then worked as accountant at the office of Dr. Jerry Frankum in Newport, Arkansas. Upon passing the Certified Public Accountant examination in 1984, she moved to Little Rock, Arkansas and took employment with the Ernst and Young accounting firm. She worked in the areas of audit and tax for five and one half years. In 1990, she became employed with Mountaire Corporation in North Little Rock as corporate controller. In 1992, she went back to school and worked at the University of Central Arkansas while attending classes. Before completion of her degree she began teaching accounting classes there. She taught classes as an Instructor of Accounting from 1992 through 1998. During the summers of 1994 through 1997, she taught classes at Arkansas State University Beebe branch.

Ms. Goza began working on her Doctor of Philosophy Degree at the University of Mississippi in August 1998. She taught accounting classes while completing coursework for the first two years. After that she worked for the library of the American Institute of Certified Public Accountants, housed at the University of Mississippi, as research

assistant. She was selected by the faculty of the School of Accountancy to attend the annual American Accounting Association Doctoral Consortium in 1999.

In the fall of 2002, Ms. Goza took the position of Visiting Professor of Accounting at Arkansas Tech University. She returned to the University of Mississippi in 2003 for one year. She was then hired by Arkansas Tech University as Assistant Professor of Accounting in 2004 where she is currently employed.

Ms. Goza is a member of the American Accounting Association. She is the wife of Sam Goza. Their happy family includes two dogs and four cats.