

Root Cause Analysis – An important tool for Internal Audit **By James C Paterson**

Over the past 15 years working in the internal audit arena I have seen a growing interest in the topic of Root Cause Analysis (RCA). My involvement in the topic has evolved from using it as part and parcel of a “lean auditing” approach, to running RCA workshops and consulting advice across Europe. I was also responsible for helping the IIA UK to up-grade its guidance on Root Cause Analysis (published in 2015).

This article explains:

- What is Root Cause Analysis (RCA)
- What involvement should Internal Audit have in RCA
- Why effective RCA is not always as straight-forward as you might think
- Why RCA is gaining interest
 - Less repeat findings
 - Delivery of greater insight
 - The ability to speed up assignments (which is often not expected)
- Some practical steps audit teams can take, most important come to the IIA Finland workshop in Helsinki on 2nd January 2017.

What is RCA?

RCA is about identifying why an issue occurred compared to simply reporting the issue, or its immediate, or contributing, causes. RCA techniques largely originate from lean disciplines and good techniques include the 5 whys, the Ishikawa/Fishbone diagram, the logic tree and Pareto analysis.

What role should Internal Audit have in RCA?

The IIA has a useful practice advisory (2320-2) on this topic:

“Auditors whose reporting only recommends that management fix an issue and not the underlying reason that caused the issue are failing to add insights that improve the longer-term effectiveness and efficiency of business processes and thus the overall GRC environment”.

It goes on to say:

“A core competency necessary for delivering insights is the ability to identify the need for RCA and, as appropriate, actually facilitate, review and/or conduct a root cause(s) analysis”.

Why effective RCA is not as straightforward as you might think

Consider an IT system implementation that was delayed and over budget: it can be tempting to:

- *Blame External factors* (“the IT contractor made things too complicated, adding time and cost”), or
- *Find a politically acceptable reason for the problem* (“the IT department didn’t manage the project so well”) or
- *Adopt a fatalistic approach*: “projects are always over budget and a bit late, it’s just one of those things”

In each case there is unlikely to be any real organizational learning because the underlying aim of such explanations is often to avoid being held

accountable for what went wrong, and to close down any serious debate about what went wrong (which might not be popular in the organization).

When it comes to proper root cause analysis key challenges are:

- *Assuming that the 5 whys technique is simple*, when it can actually just lead down one pathway, when others factors may also have led to an issue;
- *Assuming that when you have a concrete action to recommend that you have discovered the root cause, when you may be in fact only addressing immediate, rather than underlying causes;*
- *Having a proper understanding of how to combine the 5 whys technique with the other techniques*, such as the fishbone and logic tree, which will help to reveal the broader roots of the issue;
- *Recognizing there will always be two root causes for any issue, not one:*
 - Why the issue arose and
 - Why the issue was not detected
- *Assuming that root cause analysis will slow down assignment delivery* when in fact it can actually speed it up.

Why RCA is gaining an interest in audit

Apart from the fact that it is good practice to carry out robust RCA, once there is a proper understanding of how to carry out a root cause analysis, the approach will:

- Speed up assignment delivery (as part of a lean audit approach), since potential root causes will be more clearly under consideration from the start of an audit assignment
- Strengthen the insightfulness of what Internal Audit is finding
- Lead to shorter audit reports (because specific issues can be combined)
- Reduce the likelihood of repeat audit findings
- Looking at root causes and key trends will also help the audit team get a clearer appreciation of the culture of the organization and the key barriers / levers to making progress

Some practical steps audit teams can take

My advice would be for audit teams to consider and debate:

- 1) How often do issues repeat themselves (e.g. are there common themes uncovered by audit, or through any management incident reporting?);
- 2) What does the current IA methodology say about the difference between immediate, contributing and root causes;
- 3) What guidance and training is provided to IA team members in relation to Root Cause Analysis – e.g. 5 Whys, The Ishikawa diagram, Logic Trees, Pareto analysis? (Note a combination of techniques is much more powerful than just one).
- 4) What Root cause categories are currently being used by the audit team and do they expect more than one root cause

If there is room for improvement in any of these areas, auditors should certainly read the IIA guidance and also consider attending the IIA Finland Root Cause analysis workshop in Helsinki on 2nd February 2017. Hope to see you there!