

## Practical approaches to new ways of internal auditing

I'm expecting to come to Finland for 3 days to present some workshops on the theme "practical approaches to new ways of internal auditing." You can join me for the 3 days (which will receive a discount) or come along to one or two of the specific days.

Here are some of the key areas we will be exploring:

### **DAY 1 - Auditing Governance, Strategic risks and projects (14<sup>th</sup> August)**

The 2017 IPPF says that internal audit must:

Be aligned with the strategies, objectives and risks of the organisation and  
Be insightful, proactive and future focussed

That means we need to look at important (strategic) risks and how we are governing projects - but how do we do this in a way that is appreciated by busy managers? Practical points include:

- ✓ Focussing on the way key risks are understood
- ✓ Mapping out who is accountable for what
- ✓ Seeking to ensure key performance indicators and key risk indicators are working to highlight possible problems at short notice.

Key points include:

- ✓ Sensibly expanding the audit universe to include critical risks/projects and oversight activities
- ✓ Giving credit to management for known issues and action plans already underway
- ✓ Clarifying the criteria by which the areas audited will be judged (another IIA standard that has just been up-dated)

<b>Past mindset</b>	<b>Progressive mindset</b>
Avoid these risks	Focused scope of specific aspects. e.g. <ul style="list-style-type: none"><li>✓ Risk description</li><li>✓ Risk elements</li><li>✓ Key controls</li></ul> Consider design if not effectiveness, e.g. <ul style="list-style-type: none"><li>✓ Roles and Accountabilities</li><li>✓ Oversight roles</li><li>✓ Management Information / Risk appetite / KPIs and KRIs</li></ul>
Audit will struggle to challenge management decisions	<ul style="list-style-type: none"><li>✓ Explore the criteria by which these areas are managed / judged</li><li>✓ Engage risk oversight committees / roles (governance)</li></ul>
IA will not have the skills	<ul style="list-style-type: none"><li>✓ Guest auditors</li><li>✓ Guest advisors</li><li>✓ External consultants</li></ul>

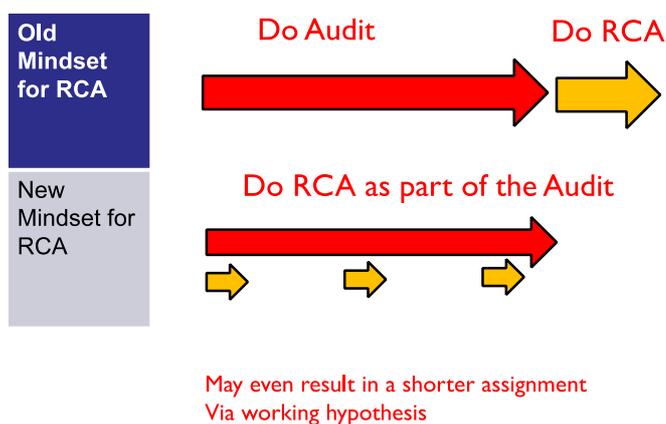
## DAY 2- Assignment work planning, efficient work programmes and Root cause analysis (15<sup>th</sup> August)

A crucial ingredient of being an effective audit team is to drive quality and consistency in the audit process and also to develop efficiency opportunities. In my experience, assignment work plans can sometimes be rather “stale”, sometimes based on financial, rather than business, risks. In contrast some work plans are developed fresh every time there is a new assignment, which take time and may be inconsistent between one team and another. Experience with clients over the past few years has highlighted an important “middle ground” where assignment work plans are based on a set of risk control matrices that are common across all members of the audit team and also aligned with other key management and specialist functions expectations. This gives the efficiency of not having to start each assignment from scratch and the effectiveness benefit - if the controls are written at the right level - of consistency between audits. We will look at this important area that many auditors spend time on to see practical good practices that get the balance right. We will also learn how effective use of risk control framework can drive greater ownership of controls by managers.

There is a great deal that could be said about Root cause analysis. Key messages are that:

- ✓ A number of audit teams do not have a clear documented approach, yet this is a crucial tool to get greater insight from assignments. Practical approaches, tools and templates will be shared at the workshop.
- ✓ RCA does NOT normally result in longer assignments, key points should be picked up as the audit progresses and - as explained in my book “Lean Auditing” may even speed up bringing the assignment to a conclusion.

### Different mindsets concerning RCA

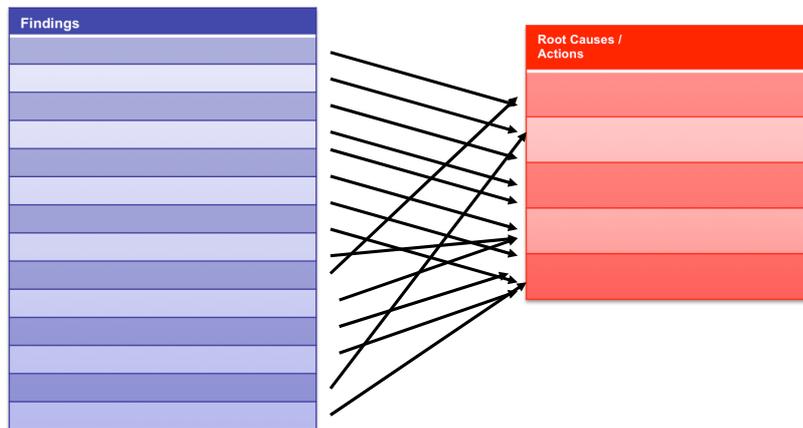


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- ✓ An effective RCA will normally identify 2-3 root causes for a problem, rarely one cause - for example, that if a problem arises there will be challenges with BOTH preventative and detective controls

- ✓ Effective RCA should result in shorter audit reports with more impact and - perhaps even more importantly, better action plans that will result in long-term solutions to problems (less repeating issues)

## Findings vs. Root causes and actions



*Aim for:  
"Key messages just once"  
Quality of actions as important as findings themselves*

### DAY 3 - Stakeholder management and strategic influencing (16<sup>th</sup> August)

As auditors and audit managers progress they are increasingly realising that doing a good audit, with clear facts and insightful recommendations is not always enough to get a good reception from managers. Sometimes this is understood that there is not the "right tone at the top" or not "the right risk culture", and there may be some truth in this, but it can also be because auditors do not fully understand the psychology of auditing and how managers make decisions.



Key factors in play include:

- ✓ At an individual level - confirmation bias
- ✓ At a group level - group dynamics and conformity
- ✓ The role of context and resource and other pressures
- ✓ Difficulties in managers taking “potential risks” seriously
- ✓

We will learn to understand the “predictably irrational” ways that managers resist what we are doing. We will also learn about organizational politics and how to overcome more challenging reactions from managers.

The ability to manage stakeholders and to effectively influence is a key factor in long-term success for auditors and was also identified as a key reason heads of audit may be asked to leave their job (research done by the Audit Director Roundtable). There has also been the first book by the IIA “The politics of internal auditing” - this is not a subject we can afford to ignore!

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**What often happens**



“Its not a priority”



“Ok lets fix the brakes”

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I have enjoyed past trips to Finland and look forward to seeing new and familiar faces at the workshops.

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