

Setting up internal audit: case study

Les Krepa, former Head of Internal Audit shares his experience of common learnings from setting up three very different internal audit functions.

“There’s never a complete blank sheet of paper. The audit committee will say the FD or CEO has already started to scope out what internal audit should look like in their opinion. These things tend to come out during the interview process so even before you join you get a sense of their expectations. Though there’s nothing to stop you changing that. You’re being brought it because of what you know after all.”

Every organisation is different. Having set up three IA functions, Krepa has also seen changing priorities. In the 90’s at Morland brewery with Turnbull high profile, the remit focused on risk with IA added later. Then joining global retailer Signet Jewellers Ltd it was about repurposing a store audit team into IA and risk. And then in 2016 the National Grid separated out its infrastructure forming a new company, Cadent Gas Ltd, which required its own IA.

“In all three cases the job description prepared for recruitment felt like a mini internal audit charter. The other thing that nearly always happens is that there’s a budget allocated. There’s always a starting point. It’s really a question of building from that and deciding how to spend it.”

The interview process is the start point of the relationship and the challenges that lie ahead, Krepa’s advice is “to use the process to test if your vision of internal audit is roughly in line with their vision. If you’re hearing bad things, I suggest you don’t even take the job”.

“I’ve learned over time get to appreciate the key stakeholders, the business and its risks before you really start making many decisions about the type of audit function you want.” Setting this expectation with the audit committee is important. They shouldn’t expect to see assurance within the first few months. According to Krepa “when you do present the first audit plan, impress upon them that it may not be completely right but as your understanding of the business develops so the plans will get better and better. Work with them.”

Time is precious and Krepa found that going to important committee meetings is a tactical way of learning about the real issues of the business, decision-making and culture. It’s equally important though to establish independence; “you can sit on it in an advisory capacity, there’s no point sitting on it if you’re not offering anything though, make suggestions, just be clear that it’s not your decision whether to take the suggestion forward or not.” It also helped to break down barriers and build relationships along with the bi-monthly meetings with the CEO and quarterly attendance at the main executive meeting.

Within a relatively short time at Cadent, Krepa had been accepted at the meetings and he puts this down to content, “make sure that when you go you have something to tell them such as update on latest audits, don’t just be there for the sake of it.”

All three organisations had different levels of understanding of IA. It’s the role of the HIA to make sure it’s the right one. Krepa says “seeds are sown early on as to what IA should be doing, executives often have very individual perceptions, so getting them aligned with what you want to deliver rather than what they think you should be delivering is a vital step. That is not easy. In all organisations there are a few major influencers,

normally the CEO and CFO. They are also the ones pulling the strings at the audit committee so you need to at least be aligned with them.”

One way to maintain this is to ensure that IA is part of the induction process for new senior employees; advocating the right IA way of working while they are still impressionable.

Essentially where it's worked really well has been all about communication. Developing a partnership approach with the CEO that delivers for the business and maintains audit independence; such as a clearance process to validate the report and provide a heads up to the CEO before it is published to the audit committee.

IA used to be a police style function which led to resistance and lack of engagement from the business. Thankfully this is not the modern way although it can be tempting to get quick results, patience can be its own reward as Krepa found “being a critical friend is a much more beneficial but getting to it is a long journey, it takes time. To begin with everyone will be guarded. You need to earn trust.” The advisory side of the role is great leverage for this when people ask for help; he warns “don't shy away from it, hiding behind independence, functions that do never quite get it right in my opinion”.

When asked about knowing you're on the right track it's not about tangible measures, Krepa commented that “you have to ask the question, you only know through honest feedback and their approach to you in the audit committee, you get a sense for if they respect you.” He also noted the benefit of asking EQA style questions informally of yourself and stakeholders.

On a practical level, Krepa confirmed that the audit universe and assurance map are invaluable tools in deciding how to plan assurance deliverables obtain the resource needed to do it and inform the audit committee of their assurance gap.

Recruiting the right people to deliver a quality output, whether internal or co-sourced is critical. It can also require tough decisions when reshaping teams as auditor's skills might not match the new roles and expectations.

Ultimately though, despite the personal buzz of taking on the challenge, strategising and investing time in relationship building it all comes down to output. Years of experience taught Krepa that “as a head of audit, regardless of how good you are yourself, you are judged by how good your department is and the assurance that is provided.”

Top tips:

- Be proactive but don't rush into decision making.
- Listen to the concerns of your stakeholders and wherever possible follow up with support
- Make time for networking with existing and new contacts, share what others are doing with key stakeholders, bringing knowledge builds credibility
- Try and find a genuine big win/attention grabber in the first year, it helps!