

Delivering basic value



It may sound like a strange headline, but providing assurance during turbulent times that the gears are turning and the nuts are tight can be highly valued by a board in crisis management mode. Be it a pandemic, recession, natural disaster, terrorism, or a data breach.

2020 is panning out to be a year in which crises collide. A year thus far dominated by climate change, coronavirus, social unrest, and political instability, with recession looming just around the corner

Audit leaders need to think strategically about value as it is a balancing act between compliance, risk-based and advisory activities. It will be a unique formula as there is no standard framework.

Thought leadership is often future thinking, challenging perceptions and broadening horizons – this is the very opposite. Grab a coffee and take a few moments to think about how your internal audit activity can be a calm harbour for your board and audit committee chair.

Value is about perceived worth and usefulness; often in the context of internal audit, added value implies cost saving calculations or frauds prevented/detected. Numerical value in other words.

Crises, particularly recessions, put intense focus on what is important and what is not. In some sectors, financial services and public sector, internal audit is a mandatory requirement; where it is not, there is a real imperative for internal auditors at all levels to demonstrate their professional value.

Relevance

When crisis strikes, the resilience planning takes effect. Internal auditors like every other employee do whatever is necessary to secure assets including buildings, cash and data.

Once the metaphorical dust settles, chief audit executives (CAEs) need to quickly assess the assurance that will be of value and deliver it. It is essential to talk to the audit committee chair about this, their perspective will be instrumental and their support invaluable.

For internal audit to add any value, it must be relevant; in times of crisis risk appetite's change, what was once intolerable becomes normal and vice versa. CAEs should always look to validate their audit plans during and post-crisis, regulatory assurance may continue unchanged but risk-based plans will invariably need to be reviewed.

Internal audit must be adaptable and swift to act. In the case of coronavirus, assurance that rapidly revised procedures to accommodate social distancing is of little value if it takes three weeks to be delivered or a payroll accuracy check for furloughed employees languishes waiting for data requests to be granted.

There may be instances where audit activity is required outside of the remit defined in an audit charter. CAEs cannot hide behind its charter, or indeed behind the importance of its independence and objectivity, circumstances change; if in doubt ask yourself if accepting it will compromise the **Code of Ethics or Core Principles**.

While we focus here on delivering basic value, for whatever reason that may not be appropriate for your organisation, every situation is unique which is why the start point must always be a healthy dialogue with the audit committee chair.

Clear vision

Crises focus the minds of all staff, senior management, stakeholders, boards, audit committees and of course internal audit. Guidance that states 'in the event of a crisis go to the designated area in the car park and await further instructions' has unsurprisingly proven to be insufficient.

The assurance budget within an organisation is complex, split across a variety of functions and rarely considered as a collective for the board in terms of a value driver rather than an overhead.

An **assurance map** is a practical tool that can be used to demonstrate where and how assurance is provided across all three lines of defence; highlighting gaps and duplications. Its simplicity facilitates discussion on risk appetite, organisational design and appropriate use of resource.

Audit leaders can use the assurance map to demonstrate the value of an independent, highly skilled internal audit function with expertise across governance, risk management and internal control. It is also a useful graphic for the audit committee to enable them to understand who the assurance providers are, perhaps building on the three lines of defence.

Regulations

CAEs will know which are the critical regulations for their organisation, those that maintain and enhance reputation, offer a competitive advantage, have the potential for high fines or, at a more basic, level enable

the organisation to operate legally.

Assurance over the controls that mitigate and detect breaches is of value during a crisis.

In providing this, internal audit must stay abreast of regime changes to ensure that assurance is relevant. For example, the **Financial Conduct Authority** issued reams of adaptations, guidance and information to support firms during the coronavirus pandemic.

- How do you keep abreast of regulatory developments?
- Is your organisation's second line sufficiently resourced?

Risks and controls

Risks and controls are dynamic, which demands a fluid approach to audit planning as priorities change. It is important to maintain a risk-based approach, yet that does not have to exclude the basics. In times of crisis, the basics can be more of an immediate risk to the organisation than those that were previously considered business critical.

Perennial risks such as cyber, data protection, third parties and reputation will always be high on the agenda and feature in the annual **Risk in Focus** research; crisis or no crisis.

The basic controls around core processes may be subject to routine self-assessments or continuous monitoring; they may also be taken for granted in stable environments and only audited infrequently. There is no better time to ensure assurance is provided than when these processes are under pressure.

Generic examples include:

- Cash management
- Expenses
- Payroll
- Receivables – in particular aged debt
- Segregation of duties
- Tax schemes
- Performance of third-party SLAs
- Pension fund

What first and second line assurance is in place – particularly continuous monitoring?

Which core processes are critical to your organisation – vehicle maintenance checks, customs forms, website load time or perhaps employing seasonal workers?

Ideally during challenging times internal audit needs to be focussing on cost reduction, liquidity and funding, however, it may be necessary to put basic assurance processes in place if they are lacking.

Internal audit can encourage the organisation to monitor the metrics that give advance warning of issues; the key risk indicators (KRIs) within your operations. In less risk mature organisations these will not be defined but they will exist – for example, a website outage might be a critical risk, particularly when customers cannot access services in person, lead indicators of increasing likelihood of the risk materialising might include increased traffic, slow load times, reduced personnel in e-comms team and increased DDOS attacks.

- How good is your understanding of KRIs?
- What metrics do you use to look ahead to where assurance will be of value to your board?
- Do you have KRIs for internal audit to help identify when you are struggling to deliver in times of crisis?

Consideration of the overall control system, closely linked to culture and an organisation's overall purpose, might also provide CAEs with insight as to potential areas of risk to be alert to from a cultural/behavioural perspective. Audit leaders should be mindful to look at all the considerations, they are all relevant although some may be more pressing for a particular control system.

Type of control system	Board outlook	CAE considerations
Output Focus on measurable results, for example units completed on a production lines, website hits, claims processed, donations received, deliveries made on time or waste bins collected.	The priorities are likely to be the 'what' of the organisation, the targets and tolerances that define 'bottom-line' performance.	<ul style="list-style-type: none"> • What shortcuts are being taken? • Do targets drive inappropriate behaviour? • Are core processes sustainable? • Have sufficient controls been designed into new 'opportunistic' activities? • Has the board reviewed and communicated its risk appetite?
Behaviour Focus on controlling the actions that deliver results, for example dress code, signage, authority levels, supervisors, reward mechanisms or procedures.	Emphasis on directing activities to maintain acceptability in 'how' the organisation operates and engages with all its stakeholders.	<ul style="list-style-type: none"> • Is opportunity for change being stifled? • Have compliance expectations been relaxed – too much/not enough? • Are existing policies/procedures workable in crisis conditions? • Can weaknesses in the governance mechanisms be identified?
Clan An informal control that relies on shared traditions, expectations, values, and norms to achieve outcomes.	Leveraging of the goodwill and intangible productivity that an organisation often relies upon, particularly those that are creative, dynamic or decentralised in structure.	<ul style="list-style-type: none"> • Are decisions being made quickly enough? • Is there a clear crisis management structure/authority? • Have employee wellbeing mechanisms been introduced? • Which activities and outputs are being prioritised?

Assets at risk

Maintaining realistic optimism during and in the aftermath of a crisis is important.

Assurance over the assets of value to the organisation may be required to ensure that they remain viable post-crisis.

Tangible assets such as property can lose value if maintenance programmes falter and there is always a risk of increased theft during economic downturns. Yet what of the intangibles, intellectual property, commercial advantage, unique talent and reputation – these are critical assets that can be the difference between organisations that barely survive and those that prosper.

- Which assets are you targeting?

Stakeholder expectations

Crisis events can understandably lead to short-term thinking by decision makers, particularly where life and or organisational survival is concerned.

Internal audit can provide a counter-balance by providing assurance that sustainability is not being compromised and stakeholder expectations are being met. Rather than an audit per se, it could be CAE advisory activity or embedded within individual engagements.

The response to the coronavirus pandemic saw a global surge in disposable personal protection equipment – its journey to landfill and our oceans at odds with a population that less than a year earlier had almost universally acknowledged a climate crisis. This action was not inappropriate under the circumstances; it does however highlight the challenge of meeting a multitude of expectations, including one's own values, that can conflict with one another and result in a shift in priority.

Typical stakeholder concerns such as remuneration, corporate governance arrangements, viability and environmental sustainability should not be overlooked; CAEs may need to remind their audit committee of the need for a robust assurance programme.

- What sustainability issues has the pandemic introduced into your organisation?
- Do you provide any assurance over stakeholder management?

Closing thoughts

The themes outlined in this thought leadership piece may not be revolutionary to an audit leader developing an audit plan during normal circumstances - old-fashioned even. Do not be tempted to confuse back value and simplicity with an easy ride for internal audit, far from it. Providing robust assurance that the board can take comfort from will require expertise, diligence and fortitude during these stormy times. Are you up for it?

"Sometimes the questions are complicated and the answers are simple"

Dr Seuss, Author