

## Consultancy advice: Practical actions for CAEs



Internal auditors are trusted advisors. That has been the marketing message of the profession for many years and with it the shackles of the policeman image have largely beaten a retreat. Internal auditors provide both assurance and consultancy advice in accordance with the IIA Standards and as such the chief audit executive (CAE) is part of a diverse, highly competitive consultancy market.

In this article, we look at the importance of consultancy for internal audit and the practical actions CAEs can take to enhance their consultancy activities. [Click here](#) to jump ahead to the actions.

Few CAEs provide no advice to their senior management and executives.

But do you think of yourself as part of this market?

Do you know how much your organisation spent last year on external consultancy advice and support? What is the ratio of that consultancy spend to your internal audit budget?

The consulting industry in the UK is worth over £11bn, according to the UK Management Consultancies Association's (MCA) 2020 annual report, with consistent year on year growth achieved over many years. In 2019 alone, the consulting industry enjoyed 7% growth as organisations across all sectors prepared for Brexit.

MCA reports that the financial services sector accounts for approximately a third of consultancy income. Of that, roughly a quarter comes from the public sector, with notable share in the private sector from organisations in retail and leisure, industrial businesses and energy and resources.

Is it possible that some of the growth in the consultancy market has come at the expense of using internal audit?

How might this impact your internal audit budget as cost pressures continue to squeeze?

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## What is the risk?

The mission for internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight – as outlined by the International Professional Practices Framework (IPPF). The **Three Lines Model** goes further and references internal audit creating value as well as enhancing and protecting organisational value.

The IPPF breaks the Standards down into requirements applicable to assurance or consulting services.

As CAEs, you are familiar with this and the risks of insufficient skills, time and budget to deliver on all fronts to balance the services that your organisation needs in order to protect its value.

Do you also consider the risk that management:

- is more comfortable with internal audit as assurance providers rather than consultants
- associates the internal audit budget with assurance and compliance
- goes out to the external consultant market without considering internal audit capabilities
- does not always discuss their consultancy needs with the CAE
- keeps the CAE at arms-length from the workings of external consultants
- appears to value the advice of an external consultant above that of their CAE?

According to MCA Chief Executive, Tamzen Isacson who represents a wide variety of consultancy organisations, from the firms to successful small and medium-sized practices *“consulting in industries dramatically impacted by lockdown such as aviation, travel and leisure has inevitably been paused but demand is still strong in other areas and firms have been heavily involved in a range of critical projects helping both the private and public sector during this crisis. Digital transformation, strengthening supply chains and cost reduction are all key priorities for businesses right now and the role our industry will play in rebuilding the economy will be more pivotal than ever.”*

There are wide ranging organisational needs for the use of consultants and an equally wide range of consulting options to serve them. There will be occasions when internal audit is not the right solution, but there may also be times when it is and the option is overlooked.

Is this a risk for you or are you happy with the status quo?

How many requests have you had in the last six months to undertake a consultancy/advisory engagement?

Do you find yourself pushing the services of internal audit or are you asked if your team has the skills and time to support a particular issue?

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## The market for consultancy

In a disruptive environment, faced with pressure to cut costs, modernise, survive and transform, consultancy expertise which can help navigate a range of problems is a valuable commodity.

There are typically three consultancy options available to management: management consultants, external audit firms and internal audit. Interestingly, the boom sector in recent years has been gig consultants: highly experienced, often entrepreneurial professionals, who have set up on their own, picking and choosing contracts to suit their own portfolio needs.



Your own external audit firm are obviously restricted in the non-audit services that they can provide. However, the other firms within this option are readily available to management.

Consultancy services themselves can be simplified into three categories:

1. Financial |capital restructuring, accounting systems together with processes and procedures.
2. Strategic |expansion and contraction, turnaround/transformation, restructuring, cost reduction, strategic planning and performance management.
3. Risk management |identifying and responding to risk, from fraud and security to IT systems and operations.

In many instances, consultants who are hired spend a significant amount of time talking to employees to understand the organisation and to create improvement plans. We have also all heard tales of a consultant replaying ideas that have been shared and being listened to when previously those same ideas did not gain traction internally.

Does your organisation use a wide range of consultancy organisations from niche specialists through to the large professional services firms?

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## Practical steps for CAEs

The MCA defines management consulting as “the practice of creating value for organisations, through improved performance, achieved by providing objective advice and implementing business solutions”. They note the top areas for expertise as finance and risk, technology, people and change, operations and strategy – all areas familiar to internal audit.

The definition is very similar to that of the internal audit mission with the notable exception of the word ‘protect.’

The following four actions can be useful for CAEs:

### Auditing consultancy spend

Most organisations use external consultants. As with any investment, it is useful to consider if it was money well spent. Where organisations have developed a culture of using consultants, this is even more important as it can become routine and an accepted expense rather than an exceptional part of a decision-making process.

This could be informal consultancy of itself, establishing some basic facts and talking to stakeholders. Or it

could be a full assurance audit conducted by an experienced member of the internal audit team. In addition to providing assurance on material spend, this also provides useful intelligence for CAEs and facilitates open dialogue on the topic.

When considering the value that a consultant has delivered, it is important to look beyond the actual advice, report or decision that has been made. The table below positions the typical needs management has for using consultants and suggests questions that internal auditors can use in their audit programme. In many cases it is important to try and ascertain why the internal subject matter experts, senior managers, directors, were unable to make a decision themselves – over time the answers to the simple question of ‘what would you have done if there was no budget available to do this’ may help to inform cultural issues.

Management need	Example assurance questions
<p><b>Bring in expertise</b></p> <p>Typically, transformation programmes, projects or new operations require skills that are not available in-house.</p>	<p>How is knowledge transferred to avoid dependency on the third party?</p> <p>What due diligence is performed to ensure consultants on the ground (not just the pitch) are appropriately skilled?</p>
<p><b>Exploit industry knowledge</b></p> <p>Useful in a highly competitive marketplace to develop or enhance a unique selling point or drive performance</p>	<p>What % of spend was taken up with ‘learning’ about the organisation and the problem?</p> <p>How did the risk profile change as a result of the insights gained from the consultant – was validation necessary?</p>
<p><b>Gain an external perspective</b></p> <p>A fresh pair of eyes to find a solution to a problem or sense check a new idea.</p>	<p>Had the solution already been identified internally but unable to be escalated?</p>
<p><b>Provide objectivity</b></p> <p>Negating undue influence by emotion and office politics in evaluations</p>	<p>Has the consultant been unduly influenced in order to meet ‘agendas’ and secure payment?</p> <p>Could corners have been cut due to pressure to deliver on time?</p> <p>What assurance is there that proposals are not in the interest of the third party (ie lead to a need for additional spend)?</p>
<p><b>Change agents</b></p> <p>Third parties have no internal bias nor are they part of the existing culture</p>	<p>Is the consultant a good fit with the desired culture of the organisation?</p> <p>What measures are in place to ensure a third party doesn’t ‘become native’ over time?</p>
<p><b>Supplementary resource</b></p> <p>To avoid distracting staff from the day job</p>	<p>What is the exit strategy?</p> <p>How is knowledge transferred to avoid dependency on the third party?</p> <p>Does this impact development opportunities for employees with the risk of losing talent?</p>

## Extend your reach

Internal auditors are experts in governance, risk management and internal control, often with a broad range of skills including the ability to review re-engineered processes, mediate to build consensus, facilitate workshops and bring a creative and independent perspective to problem solving.

These are also the skills of a general consultant.

Put aside resourcing issues and take a moment to think about the opportunities that you might have to provide cost effective and efficient consultancy support to your organisation.

Management need	Scope for internal audit?	
N/A	Consideration must always be given to the provision of assurance within the 12 months after a consultancy/advisory engagement (Standard 1130).	
<b>Bring in expertise</b> Typically, transformation programmes, projects or new operations require skills that are not available in-house.	<input type="checkbox"/>	Internal audit has a wide range of consultancy skills which can be utilised for specific engagements. There may also be specialisms within the team depending on experience.
<b>Exploit industry knowledge</b> Useful in a highly competitive marketplace to develop or enhance a unique selling point or drive performance	<input type="checkbox"/>	
<b>Gain an external perspective</b> A fresh pair of eyes to find a solution to problem or sense check a new idea.	<input type="checkbox"/>	Independence and objectivity are the foundation of internal audit. Where this is the driving factor for using a consultant, internal audit should be considered as an alternative to third parties.
<b>Provide objectivity</b> Negating undue influence by emotion and office politics in evaluations	<input type="checkbox"/>	
<b>Change agents</b> Third parties have no internal bias nor are they part of the existing culture	<input type="checkbox"/>	Depending on the scale and complexity of the change, internal auditors are alert to bias and culture on a daily basis, effecting change through audit findings and agreed actions.
<b>Supplementary resource</b> To avoid distracting staff from the day job	<input type="checkbox"/>	Temporary secondments can be beneficial for management and the internal auditor.

## Accessing the market

An assurance audit provides useful intelligence for CAEs on the extent of consultancy spend and the perceived management requirements. Above all else, time is often a limiting factor for CAEs, particularly where there are already material assurance gaps on the audit plan.

As with all matters relating to the remit and budget of internal audit, the audit committee chair is the start point for meaningful dialogue. Is consultancy within your charter? Have there been occasions when the audit committee has questioned the value of using an external consultancy?

Obtaining the support of the audit committee is a critical first step in looking to increase your consultancy engagements.

CAEs must then compete and demonstrate their worth.

Have there been occasions when the costs incurred from a poorly designed process or control could have been avoided as a result of internal audit's involvement? Has management engaged external expertise to

facilitate workshops rather than use internal audit which could have been a win-win; management get an objective perspective and internal audit build relationship and operational knowledge?

CAEs need to give management the confidence to ask for advice and insight before or instead of going out to third parties. What is your audit strategy, your marketing plan, your consulting methodology? Think like an entrepreneur.

## Measure success

A contentious point.

How should internal audit measure and demonstrate its success?

An external consultant has no hesitation in reporting its value to management. If internal audit is also performing consulting engagements, should it do likewise?

- Approach – was the engagement in line with expectations?
- Relationship – what reputation does internal audit have?
- Expertise – were skills sufficient for the task?
- Delivery – how agile and adaptable was internal audit?
- Impact – what tangible outcomes were achieved?
- Satisfaction – will internal audit be considered again?

Return on investment is a key measure of success for consultancy activity – the savings from restructuring a function, re-engineering operations, identifying leakage points in a process or opportunity costs of having enhanced controls to prevent future fraud.

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## Closing thoughts

Finding the right balance of assurance and consultancy engagements to create, protect and add value to your organisation is not easy. Wherever your internal audit activity is on the spectrum, a consultancy audit is a win-win: assurance for the organisation that their approach and investments have delivered value and, at the same time, providing you understanding of the consultancy market within your own organisation.

"Nothing is more confusing than people who give good advice but set a bad example."

**Norman Vincent Peale, Author, The Power of Positive Thinking**