



When cash is king: Top tips for chief audit executives



There are a variety of reasons, both internal and external, why an organisation might need to tighten its grip on its finances. We look here at a menu of points that a CAE might consider to ensure that internal audit creates and protects organisational value through risk-based and objective assurance, advice and insight. What would you do?

Put yourself in the shoes of the CFO

When times are tough, the mantra that “cash is king” is often heard within a finance department. It is the harsh reality that determines liquidity and financial sustainability.

On a regular basis, it is a worthwhile exercise as CAE to spend twenty minutes or so thinking about the organisation from the perspective of a CFO. The value of this increases considerably when costs are under pressure.

What are the biggest risk concerns?

How long can an organisation survive?

Which areas present opportunities for exploitation and which can be sacrificed?

The skills and knowledge across the internal audit team should make it possible to undertake a cash

leakage exercise: mapping out the key processes of the organisation and where leakage may be occurring. If there isn't time for this, what about the instinct across the team? Identification of quick wins (issue and solution) have the potential to stave off restructuring together with the associated costs and upheaval. Revisiting processes could also better position an organisation to take advantage of opportunities either immediately or post-recession.

The supply chain is a key area to look at due to its complexity with multiple systems, workflows and geographies can be a rich source of cash and value leakage. Are short shipments identified? How accurate are stock files? Could damages be reduced? What additional recovery could be obtained from returned and obsolete stock?

It is not just physical stock that can lead to leakage. There are also third party partnerships, service arrangements, utility costs, payroll errors, internal consumables, where penalties are often paid for late submissions, etc.

Internal audit has a unique, holistic perspective across an organisation and is well placed to make informed judgements based on experience and available information, including output from data analytics exercises.

Be present

Being present is about giving someone your full, undivided attention – actively listening. Depending on the severity of the situation, this could be time in a meeting or it could be the full resources of the audit function.

CAEs can provide invaluable advice and insight to the decision makers of an organisation. Waiting to be invited to the discussion might not be an option. You may need to invite yourself, push the role of internal audit forward and make yourself available.

Management and the board may find a CAE's objective input to be invaluable when considering a structural reorganisation and staff reductions.

Risk appetite

When faced with a crisis, as with the pandemic, many organisations experienced enforced closures due to the pandemic lockdowns. In such times, it is all too easy to forget the good work that took place in quieter times. Have you as a CAE reflected on the pre-pandemic, pandemic and post pandemic scenarios?

Organisations with defined risk appetite statements might need to be encouraged to use them and revisit them to aid decision making. A CAE should help the board avoid wherever possible cost-reduction strategies that could irreparably compromise the organisation's long-term growth strategy.

Protect the internal control environment

Effective relationships come to the fore during difficult times. CAEs in partnership with the audit committee can work to protect the internal control environment in a way that is appropriate and proportionate to the situation. Sometimes it might be necessary to take an informed decision to temporarily relax certain controls to ensure survival.

Internal audit is a key facilitator of assurance mapping across the **three lines**. Using this network and influence could be instrumental in focusing on key controls and maintaining the fundamentals of the control environment. If cost savings are a planned activity, then a CAE could oversee the creation of a cross-functional team whose mission will be to identify and execute cost-reduction opportunities and make cost

management and cost discipline a continuous improvement process.

Elimination of duplicate controls, automation and exploring existing software capabilities not being utilised could make a huge difference to a struggling organisation. Something that internal audit should be encouraging at all times but can easily be overlooked, in a crisis, until it becomes an imperative.

Heighten fraud awareness

According to the National Crime Agency, data breaches continue to be a key enabler of fraud. How robust are your organisation's defences?

Invoice fraud, for example, is a perennial issue. What standard controls are in place?

- Are changes to bank accounts details confirmed by phone rather than email? How robust are your controls?
- Are invoices checked for consistency – an 'i' instead of an 'l' in an email for example is typical of a scammer having set up a fake domain – how do management check that the team are alert to the risks?
- How open is your organisation about its vendors? Testimonials, client lists, etc, on a website can be as attractive to fraudsters as to prospective clients.

Internal audit should always ensure that organisations remain vigilant to employee fraud. In March 2021, a former employee at Luton Council was convicted for a £115,550 fraud having manipulated accounts. A customer service advisor at Coutts bank was also convicted in 2021 for selling clients security details enabling fraudsters to steal over upwards of £1.5m from customer accounts. When is the last time you talked about this with the audit committee and other key stakeholders?

The Chartered IIA's [Mind the Gap report on cybersecurity culture](#) is a useful read in this regard.

Duplicate payments

Using data analytics can often identify duplicate payments – even when accounts payable managers are confident of their processes. Data mature internal audit activities will have their own software and may have already introduced continuous monitoring within accounts payable itself. Many organisations outsource this type of work to specialists, however, in doing this they incur cost so do not benefit from the full recovery costs. For CAEs still finding their feet with data analytics, there are cost effective tools such as Microsoft's Power BI.

The Institute facilitates a Data Analytics self-help group for members – [click here](#) for details.

Logistics overcharges

Supply chains are often complex and dynamic and so is logistics invoicing. Disruption such as the pandemic or a ship blocking the Suez Canal can also result in switching of vendors or entering new geographies without the usual due diligence.

Depending on the nature of your organisation, logistics and freight costs can be a sizeable expense, particularly when overcharges are taken into account – and they are more common than you may realise. According to Steve Ferreira of Ocean Audit, the shipping industry alone overcharges by five billion dollars each year! [Click here](#) for a Logistics of Logistics podcast to learn more.

Auditing contract charges should be a priority when an organisation is looking for quick wins and efficiency gains. An audit should include reviewing contracts to understand the actual costs, extracting freight data (dates, weights, volumes, locations etc) from systems and independently recalculating the charges to enable refund/credit requests as appropriate. A sample will establish the validity of extending the population or even establishing an automated approach to continuous auditing. As with accounts payable, this can be outsourced to specialists but with advances in software and data analytics competence why share the benefits of the recovery with a third party?

Price gouging

Price gouging is when a seller increases the price of goods, services or commodities to a level much higher than is considered reasonable or fair. It can happen at any time but it usually happens after a demand or supply shock – as seen with toilet rolls and hand sanitiser in the first few weeks of the pandemic in 2020.

We notice at the supermarket when a bar of chocolate shrinks except for the price. But what about in the workplace, changes to the number of units in a box, the weight of a package, etc?

Not receiving the best price can significantly impact the bottom line.

If contract negotiations secured a preferential rate, is it being honoured? Are rebates being applied?

Again, this is an area where data analytics can be particularly useful.

Software licences

Organisations, particularly those who have gone through a digital transformation, are likely to have a dearth of technology – some of which may be core to operations while others may be obsolete or infrequently used. When was the last time your IT function performed a usage audit? Is your organisation paying for users and licences that it no longer needs or can get by without? Changing an agreement from individual to concurrent users could save costs.

Out of the box thinking

Traditional approaches to reducing cost include redundancies, cancelling projects and, if time allows, reengineering processes to reduce wastage. CAEs may be able to encourage senior executives to explore temporary changes to working hours, job share and temporary pay cuts, often associated with factories rather than offices, reducing office space (potentially a more conventional way of thinking now in a post-covid landscape) and exploiting short-term opportunities in markets rather than pursuing core activities.

Internal audit skills include creativity, problem solving and critical thinking. Finding a solution to an organisation in crisis is the same as resolving an audit finding – it's just the scale of the issue that is bigger!

Conclusion

The thread weaving through all of these tips is relationships. A CAE potentially has one of the most diverse networks within an organisation. All of these tips require reaching out and working in partnership with a variety of executives and management to make a difference. It is not always about what you can do yourself but what you can facilitate through advice and support.

"Great things in business are never done by one person"

Steve Jobs, co-founder Apple Inc