Is your assurance gap acceptable?

Creating the ‘annual’ internal audit plan is not straightforward. The need to do more with less, to mitigate against a skills gap, balance the expectations of regulators, board and management, and all against a backdrop of a VUCA environment.

More often than not, there will be a list of audits that cannot be resourced. Unless of course you have a Mary Poppins style budget bag! This list is commonly referred to as an assurance gap.

In this article, we question whether an assurance gap is an acceptable part of risk-based internal auditing and good corporate governance as the Audit and Assurance Policy takes shape.

Perspective is everything

When you look at the cover image above, do you see a gap in a bridge or a bike crossing a river?

A gap is a matter of perspective.

Defying this gap, is Eddie Kidd OBE, motorcycle stunt performer and England’s answer to the famous Evel Knievel. Jumping into the record books in 1978 after clearing 14 double decker buses, Kidd had an injury free career as a performer and stunt double including for three James Bond movies.

Risk appetite is key.

In 1996, having uncharacteristically partied the night before and ignoring his own safety concerns, Kidd performed a relatively small jump with a rare uphill landing. He was knocked unconscious on landing due to the angle of the bike and out of control plummeted over a steep bank. Kidd survived but with life changing injuries including paralysis and brain damage.

What type of CAE are you?

Imagine you have to get assurance across the divide to the audit committee. Do you accept the gap – the lack of resource, the time constraints, the skills issue? Or do you find a way. Remember the Audit and Assurance Policy (AAP) is a public document - perceptions may differ of what is acceptable in the confines of the boardroom versus stakeholder transparency.

Are you courageous? Are you creative?

Internal audit assurance is unique. No other function can provide independent assurance. On that basis, is it acceptable for there to be any gap in the assurance that the audit committee requires?
The Chartered IIA's internal audit codes of practice are clear that "internal audit should make a risk-based decision as to which areas within its scope should be included in the audit plan – it does not necessarily have to cover all of the scope areas every year". Planning should ensure that it reflects the business model and risk profile of an organisation. It needs to be truly risk-based.

Why assurance gaps are no longer valid

Here are three reasons as to why an assurance gap is no longer valid.

1. Mind your language

Words are powerful and internal auditors are careful to choose their words.

How do you refer to your internal audit plan?

An annual plan was commonplace ten years ago but less so today. The speed of risk makes it impossible to have any certainty over what assurance will be required in six let alone 12 months' time. A more contemporary internal audit plan has a firm three months with the following three proposed and the next six outlined but to be confirmed. A 3+3+6 plan. Some might prefer a 3+ plan - there are many variations.

The most important factor is that it is not static; an internal audit should be dynamic.
It is a plan. A rolling plan. This way there are no assurance gaps only priorities.

And priorities can change.

If the audit committee approves a 12-month plan at the start of the year, it follows that the CAE will report against progress and change will be by exception. If we change the scenario and the audit committee focuses on discussing its assurance needs once a quarter before approving the next phase of a rolling plan does that add more value?

Perhaps this sounds too simple, idealistic even, particularly for organisations that have significant regulatory compliance requirements. Does it have to be complicated? Why not differentiate and have two distinct elements to the plan. One part clearly risk-based, dynamic and under constant review throughout the year, the other structured to the compliance universe of repeated, cyclical audits.

The language of assurance will adapt as audit committees use of the AAP evolves. This is the perfect opportunity for CAEs to shape the narrative and review their own audit planning approach and how it is presented to the audit committee.

If you missed it, the technical blog post assurance – are you sure? is an interesting read that also challenges the language we use. In this case, the word assurance itself.

2. The sum of the parts

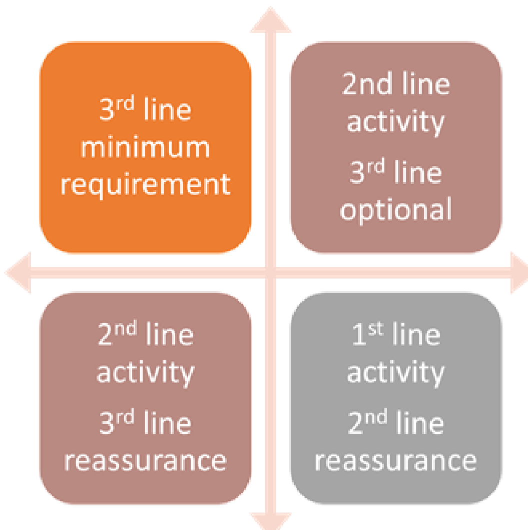
Internal audit is part of the Three Lines Model. Independence does not mean isolation.

CAEs are mandated to coordinate assurance as part of the IIA Standard 2050. Working, within boundaries, with other assurance providers, internal audit can extend their assurance coverage.

In addition, and of most value to the assurance gap debate, is the fact that the CAE is best placed to facilitate integrated assurance for the audit committee. Using an assurance map clearly shows how often and from where assurance is obtained over the key risks, processes or objectives of the organisation.

If the assurance map highlights a gap, internal audit is one of many options available to the audit committee, depending on the assurance requirement, to provide assurance to address the gap. It is all about perspective.

The diagram opposite (click image to enlarge) is a simple matrix to help CAEs think about the three lines in the context of securing an assurance gap. Internal audit should resist any pressure to be the primary assurance provider in three of the four quadrants. Obviously a generic model will not fit all situations but provides a start point for decision-making. Limited resources should be used economically to preserve availability and maintain premium value.



A gap does not have to exist if all three lines of assurance are effectively utilised.

It can be resolved courageously or creatively. An assurance map is essential to the creation of the AAP, maximises the use of resource and is an invaluable tool for the audit committee. If you haven't created one yet, click here to find out more.

3. Prioritisation

The internal audit plan is a blend of art and science. It is always subjective.

CAEs in non-regulated sectors will certainly have more scope for art and the Internal Audit Charter is the foundation block for the remit and expectations of internal audit. Building the plan around high priority risks, key areas of change and the needs of stakeholders helps to minimise the risk of an assurance gap.

The Chartered IIA's annual Risk in Focus report is an influential read when looking ahead at emerging risk. It also holds a mirror up to CAEs about where internal spends most of its time and effort. It is a good indicator of the real assurance gap rather than one suggested by an individual audit plan. The 2024 report clearly shows that internal audit spends an apparently disproportionate amount of time auditing organisational governance and corporate reporting plus fraud, bribery and financial control compared to the perceived risk. Why is this? Conversely, climate risk continues to have notably less time compared to the risk profile. What could be the reasons for this?

Does an assurance gap suit internal audit; a safe harbour when really it is unwilling to step out of its comfort zone?

Transparency over what will and will not be assured is critical but as CAEs also be clear that what is included in the audit plan is a choice. If prioritised correctly there is no assurance gap.

Closing thoughts

Whether an assurance gap is an acceptable part of risk-based internal auditing and good corporate governance comes down to risk appetite. In an interview some years after his accident, Kidd said “I should never have jumped that day. I wasn't right in the head. But I thought I'd get away with it. I thought I was invincible. Anyway, there were 20,000 people there waiting to see me. How could I not do it?”

The audit committee are human: they can become complacent to risks, feel pressured, and have days when decision-making is impaired. Ultimately, the audit committee is accountable for any assurance gap compared to its assurance needs and must decide whether it is acceptable. Ultimately, it makes the leap and takes the consequences. Perspective is everything.

“The optimist sees the donut, the pessimist sees the hole”

Oscar Wilde