



Staying Relevant

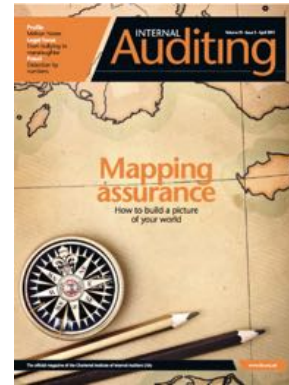
CIPFA NW

Chester, 11th March 2017

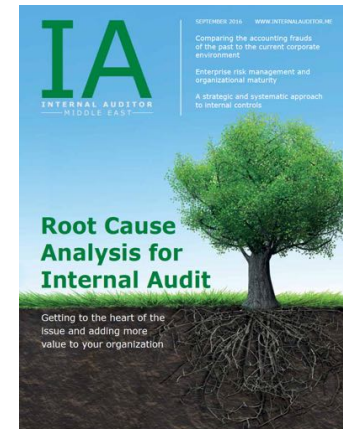
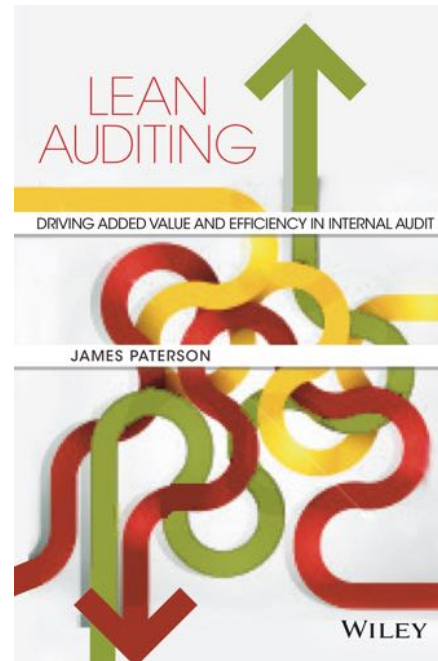
**James Paterson,
Risk & Assurance Insights Ltd**

J C Paterson

- ✓ 1980s: Civil Servant
- ✓ 1990s: Finance
- ✓ 2000: HR
- ✓ 2002 ~ 2009: Chief Internal Auditor
- ✓ 2010 ~ Consultant / Coach



The Lean Audit Advantage



What I would be thinking about right now if I were you
~ to stay relevant
and
~ stay ahead

- ✓ Budget cuts
- ✓ Audit planning and scoping
- ✓ Coverage and resources
- ✓ Scoping
- ✓ Understanding and managing organisational politics
- ✓ Reporting
- ✓ Tuning into risk appetite
- ✓ Getting to the root causes
- ✓ Follow-ups
- ✓ Looking forward



Background

Things go wrong..

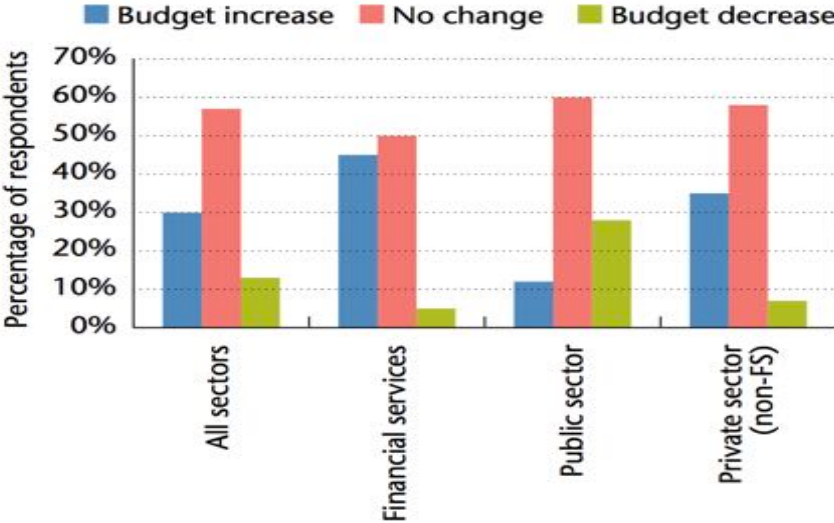


What can internal audit learn?

What can managers etc. learn?

IIA Budget survey ~ 2014/15

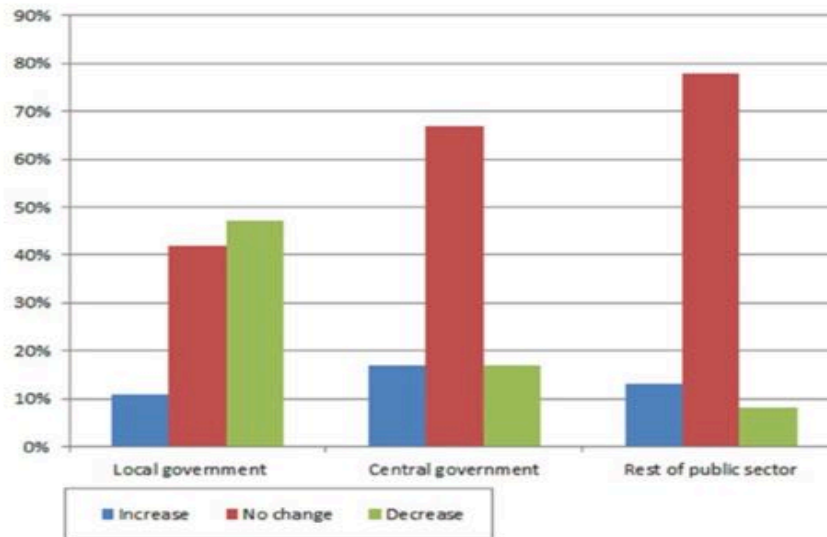
In the next year will you be changing your internal audit budget?



Budget increases /decreases 2016

Resources

The budget changes in the public sector show the same direction of travel as last year but are more pronounced this year particularly for the rest of the public sector where a greater proportion of respondents stated that there would be no change to their budgets compared to last year and that a smaller proportion would see budget decreases.



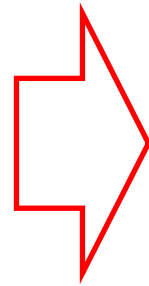
i.e. More risk ... and many frauds etc. but..
~ Lets reduce back office and internal audit!



What could be Happening?

(part 1 - Culture)

What often happens



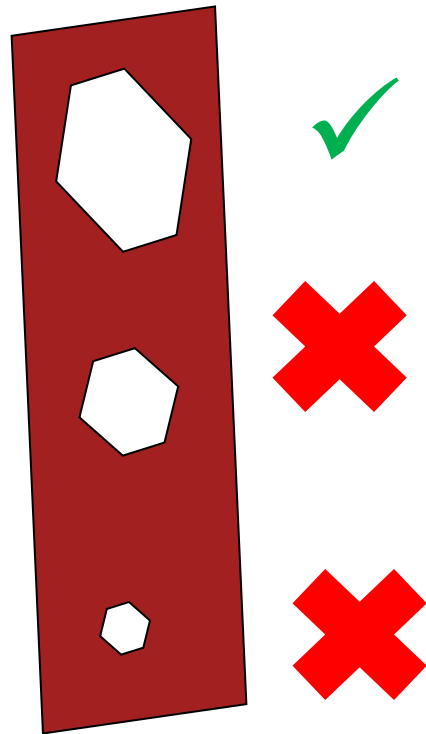
”Its not a
priority”



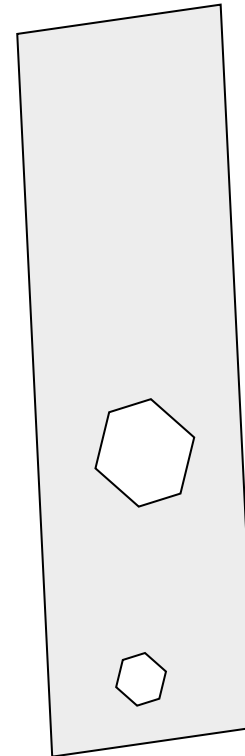
“Ok lets fix
the brakes”

Looked at another way

**RISKS /
FINDINGS**



ISSUES



Action?



*Culture of concrete, tangible things
Potential things have to be VERY big
Need to find a way of making them real*

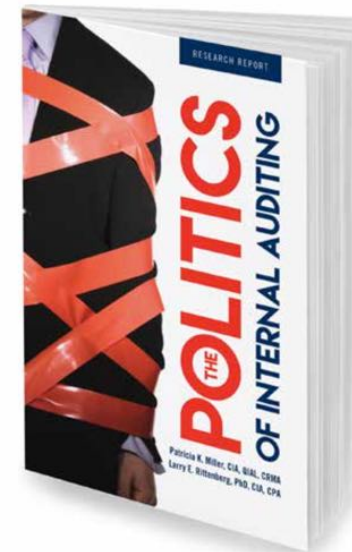
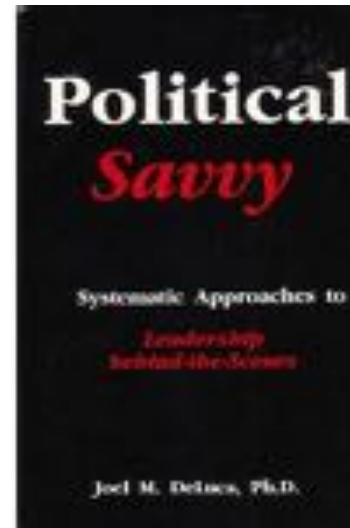
What are these other things?



- ✓ You are a policeman for the audit committee
- ✓ I didn't want this audit
- ✓ I did my best and don't appreciate your criticism – Lack of training, limited resources and other priorities are the main reason I didn't do these things
- ✓ Remediation will consume time and resources I don't have

What could be happening

(part 2 – politics)



What are these other things?



- ✓ You are a policeman for the audit committee
- ✓ I didn't want this audit
- ✓ I did my best and don't appreciate your criticism – Lack of training, limited resources and other priorities are the main reason I didn't do these things
- ✓ Remediation will consume time and resources I don't have
- ✓ My boss will beat me up over this
- ✓ I'm going to do the minimum and see if I can get away with that..

Political types in an organisation



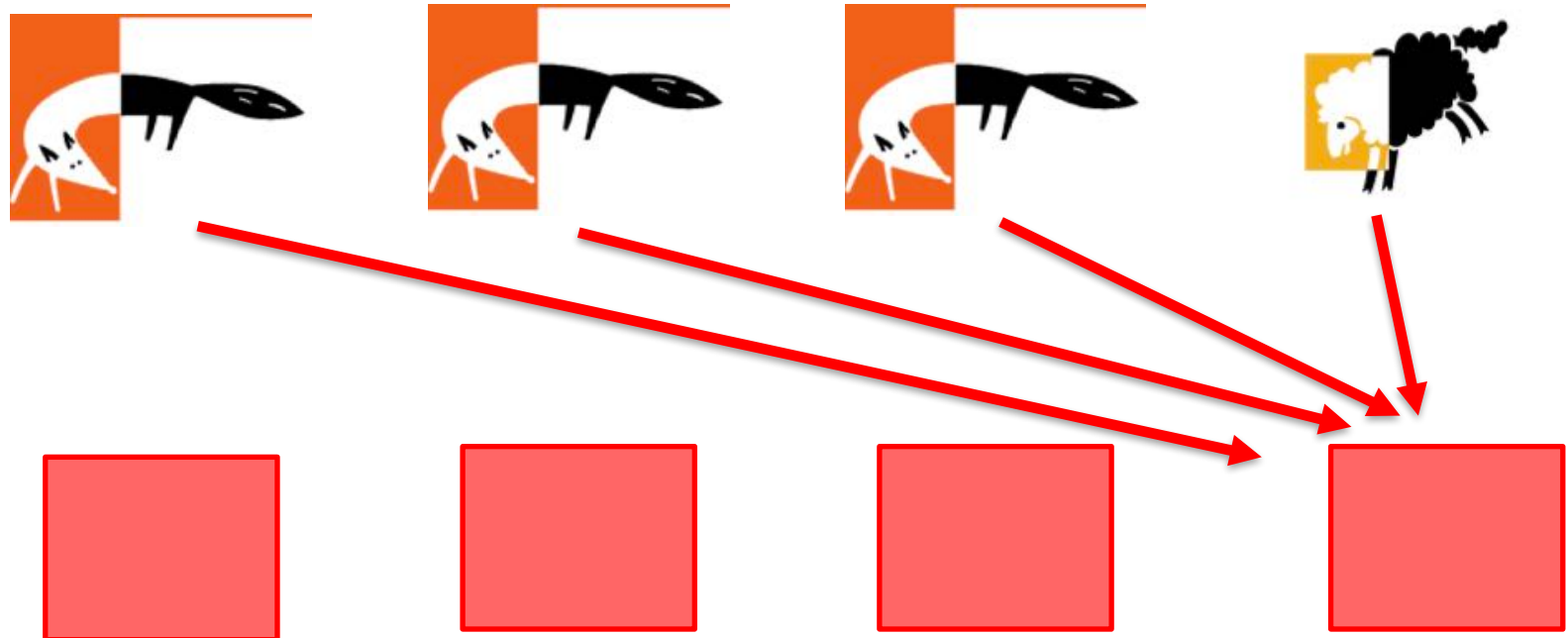
Wolf in sheep's clothing

What you will see...

- ✓ No response to e-mails / phone messages
- ✓ Cautious on awkward topics
- ✓ Keen to postpone assignments / reports
- ✓ Attendance / involvement - v high / v low
- ✓ Cancel meetings at short notice - and won't offer new appointment soon
- ✓ Delay / Limit information (but with apparent good reason)
- ✓ Question whose role to carry out actions
- ✓ Claim they knew about / were working on certain issues (to downplay value from the assignment)
- ✓ Good "in the moment" in meetings (lobbying beforehand)
- ✓ Agree to fix and then delay, or fix superficially



Views on issues / areas for audit



- ✓ *Auditing known areas of weakness – not always wise*
- ✓ *Does a satisfactory Control Self Assessment mean less or more audit attention?*
- ✓ *If a project cant be audited for fear of disturbing the project – how much risk must there be in the project?*

Planning – Traditional approach

Entity	Entity code	Last Audit		Corporate risk register				2012/13				Suggested CR	Comments / scope
		Date (only audits since 2012/13 shown and only top 5 risks for each)	Opinion	Ref	Gross score	Net score	2012/13 audit	2013/14 audit	2014/15 audit	2015/16 audit			
Technical Services													
Car Parking		2013/14	Substantial				✓	✓				2	Review of parking payment mechanisms with possible advice prior to implementation.
		2015/16	Moderate										
Shop mobility		2012/13	Moderate				✓						
Public conveniences		2012/13	Substantial				✓						
Sport, leisure & play areas		2010/11	Substantial							✓	4		Review of leisure contract monitoring.
Sports Development													
Health and safety		2012/13	Substantial	9	8	4	✓						
Health and well being		2014/15	Substantial						✓				
Construction management		2014/15	Moderate						✓				
Corporate property		2012/13	Substantial				✓			✓	2		Advice on new asset management strategy.
Building control		2010/11	Moderate										
		2015/16	Substantial										
Streetscene													
Waste & recycling		2012/13	Moderate	5	6	4	✓			✓	3		Review of contract monitoring arrangements.
Grounds maintenance		2010/11	Substantial	5	6	4		✓					
		2015/16	Substantial										
Street cleaning		2010/11	Substantial	5	6	4							

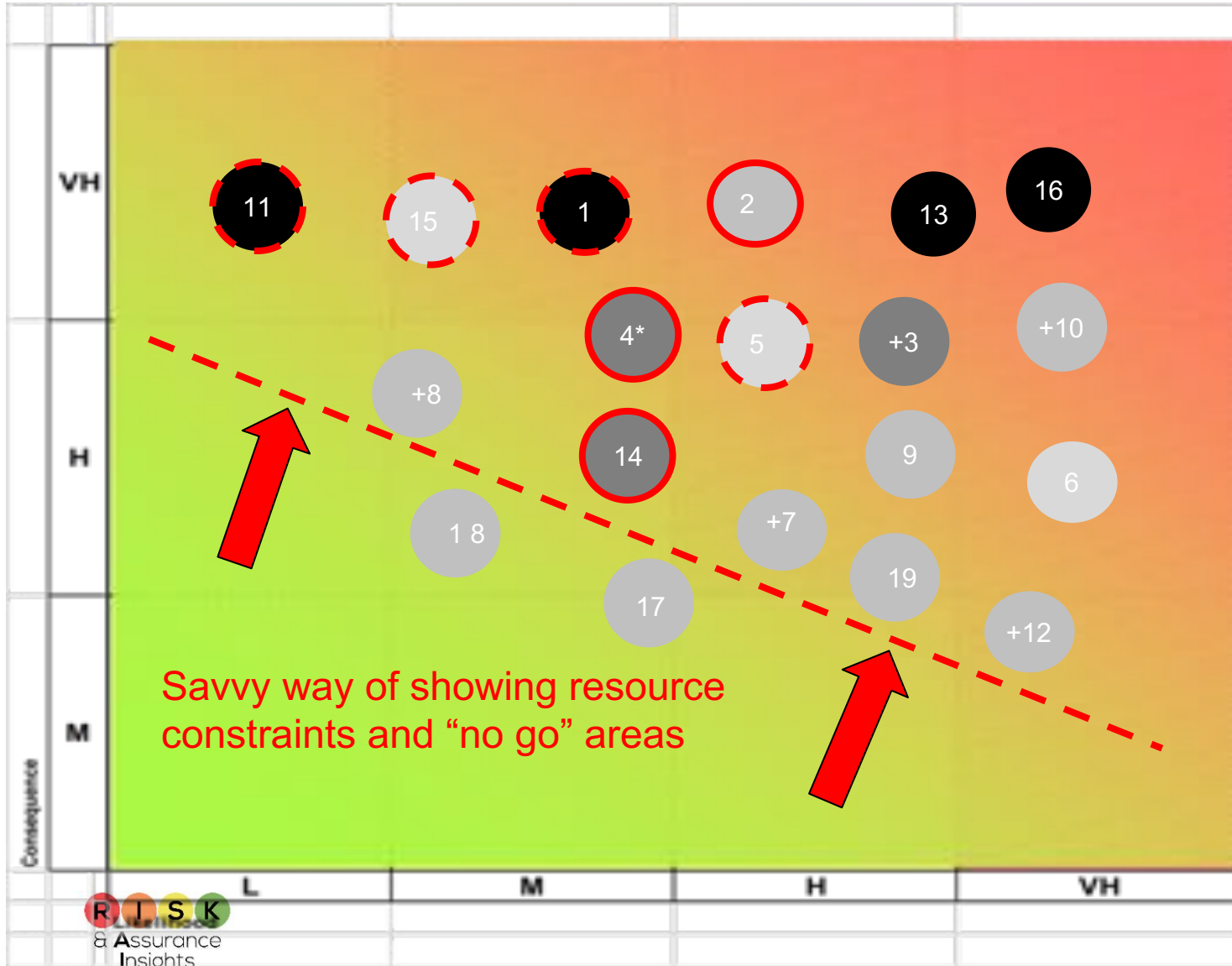
- ✓ Rational, detailed BUT
- ✓ Not obvious what point is being made...

Planning – Assurance approach

Risk	Responsible Manager	Summary of past Internal audit coverage	Coverage - Planned Assignments
Sustained austerity measures present further significant imposed savings over the medium / long term.	Executive Director and S151 Officer	Programme / project management Strategic, financial & business planning	Partial - Financial planning
Welfare reforms and planned reductions in services for vulnerable members of the community by other agencies.	Head of ICT and revenues	Homelessness 15/16 Empty Homes 14-15	Partial - Housing Benefits
Inability to secure economic growth and increase tourism	Executive Director and Head of Paid Service	None	Partial - Economic development & tourism
Core Strategy not delivered.	Executive Director and Head of Paid Service	None	Partial – Project Y interim review
Safeguarding Children and Vulnerable Adults - inability to take action to avoid abuse, injury or death.	Executive Director and Head of Paid Service	None	None - Direct Assurance possible Future opportunity to validate strength of assurances
Inability to maintain services in the event of either an external or internal emergency.	Business Continuity - Head of ICT and Revenues Emergency Planning - Head of Planning and Housing	Business Continuity 13-14	Partial Emergency Planning Business Continuity

- ✓ 1-2 pages ~ gaps should leap out
- ✓ Partial coverage should be explicit

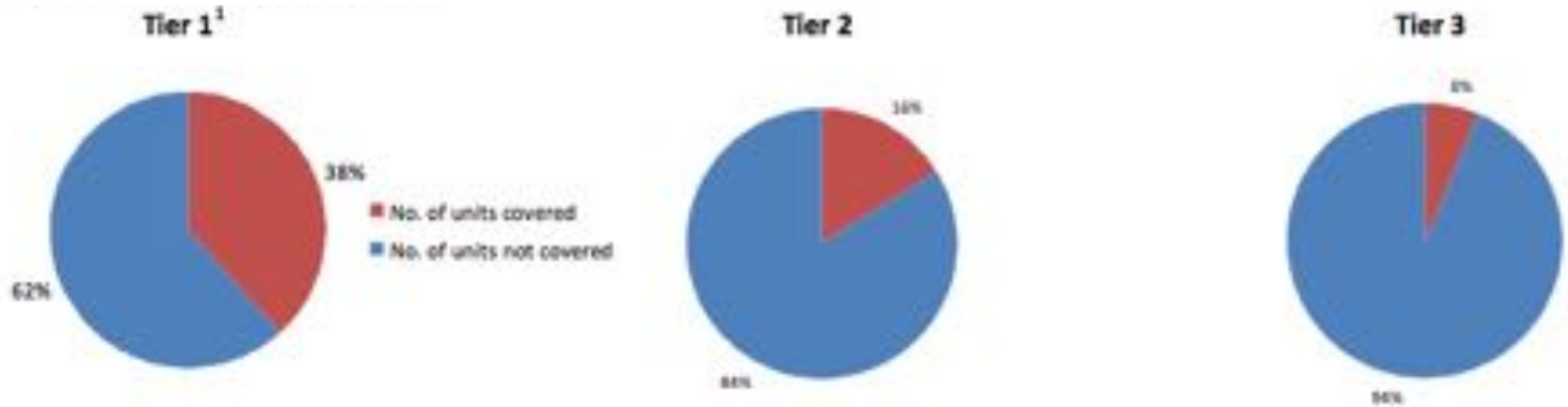
Another approach to highlight gaps



- Audit on plan
- Review On plan
- Audited ~ 2 years
- Other Assurance
- Never audited

Another approach

Coverage this year, by risk/tier vs. total universe of activities



Not saying not enough resource, but....

Make sure your audit universe matches the risk environment

Old world	Current	Future
Processes	Objectives	Emerging risks
Locations	Risks	Customer interactions
Departments	Projects	Management of complaints
Regulatory requirements	Regulatory / EU returns	Key decision making models
Systems	Governance framework	Culture
3 rd party suppliers	Risk management framework	Key corporate events
3 rd party service delivery	Other assurance functions	
	VFM / Best value	

Strategic approach

Look at coverage by risk type

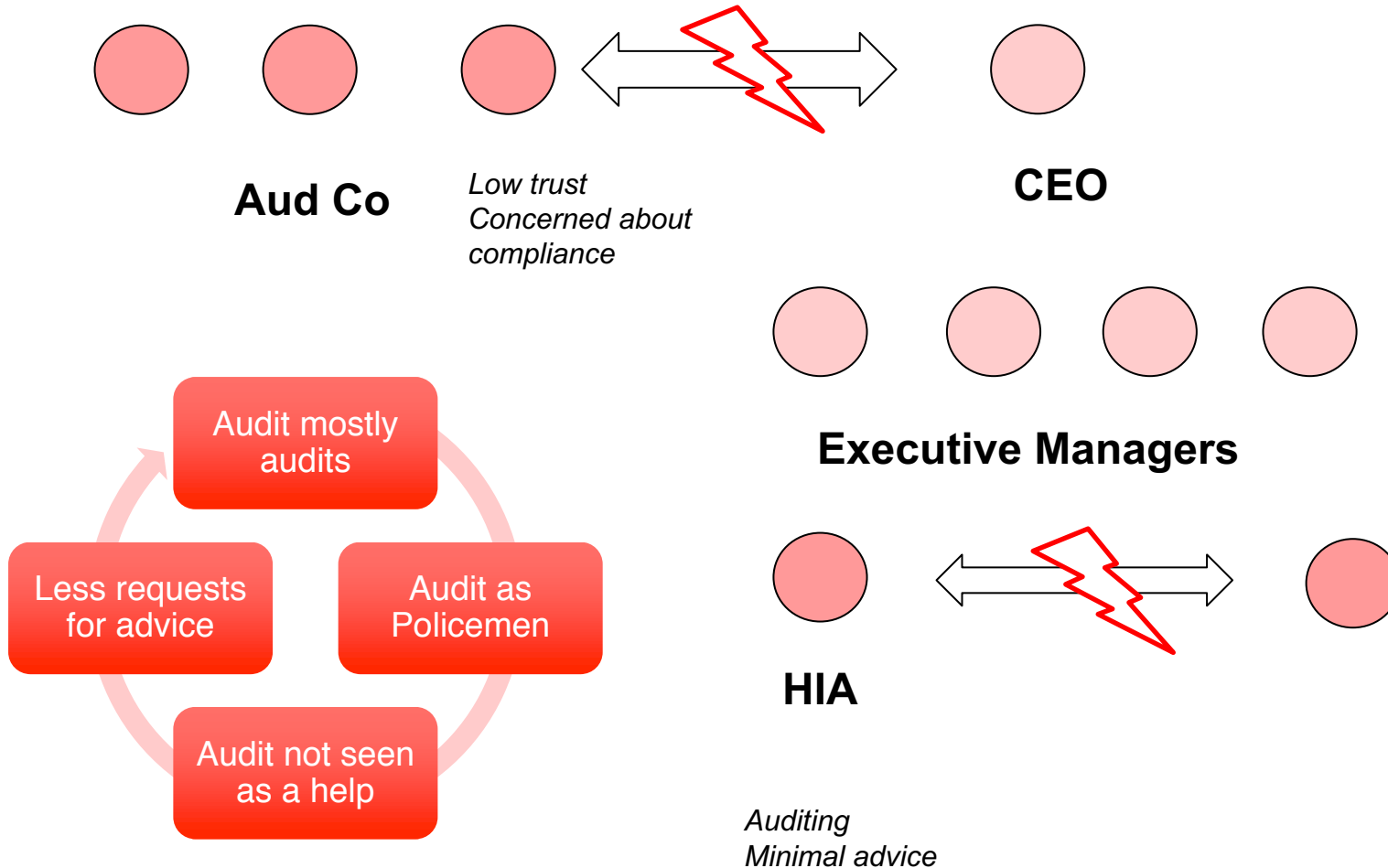
	Year 1	Year 2	Year 3	Year 4
Financial Controls	35	30	25	20
Compliance	35	35	30	25
Operational Controls	20	20	20	25
Strategic risks	10	15	25	30
TOTAL	100	100	100	100

Explore root causes of lots of financial control auditing
Is this efficient given External Audit and Finance work?

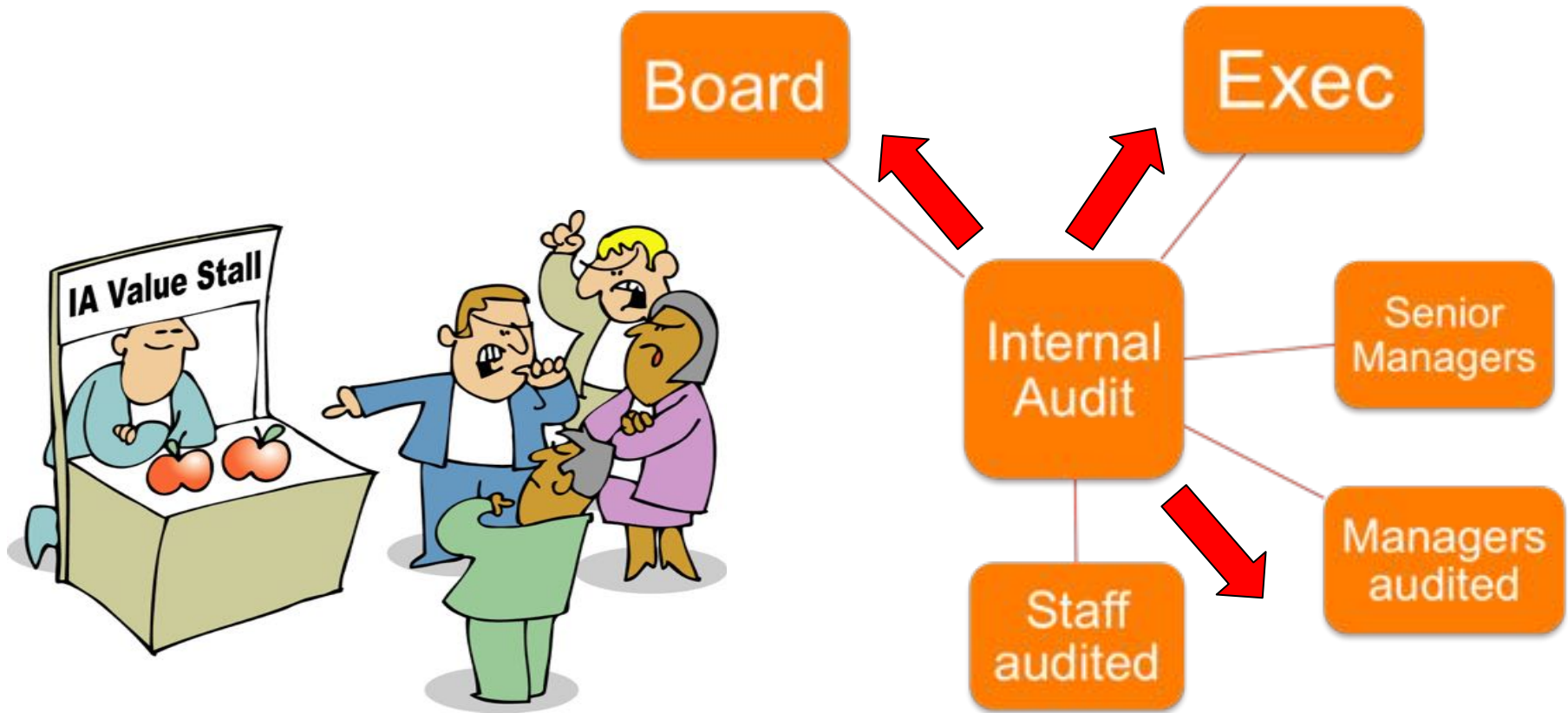


Managing the customers / stakeholders of IA

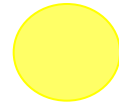
Advice/Assurance - impact on relations



Tensions between key stakeholders

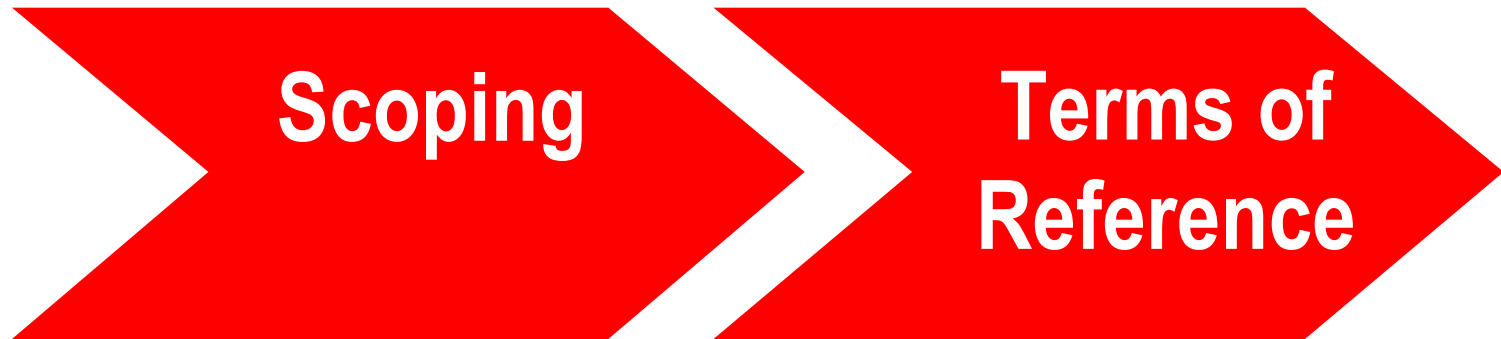


- ✓ Don't get caught in the middle
- ✓ Name differences of opinion



Scoping

Assignment Planning



- ❖ Assignments cost money – must add value
- ❖ Assignment plan, scope and remit must ensure the audit looks at **risk** and also **value**
- ❖ **Why was this audit on the plan?**

What are the exam questions?

Make depth and breadth clear

Depth of work Bredth	Low	Medium	High
Low	<ul style="list-style-type: none"> • Focussed healthcheck • Limited scope review • Review of a theme area <p>10 days</p>		Focussed investigation / audit 15 days
Medium	Review 15 days	Audit 20 days	Investigation 25 days
High	<ul style="list-style-type: none"> • High level review • Healthcheck <p>20 days</p>		<ul style="list-style-type: none"> • Comprehensive investigation • Full scope investigation • Full audit <p>35 days</p>

- ✓ *Detail of scope and exclusions in the audit documentation may not work*
- ✓ *It assumes the scope will be read – And doesn't cater for foxes, who will say it wasn't clear*

Terms of Reference – Real world approach

Operational controls

O2

Risk through change

Financial control

F2

Compliance

C2

C1) *If time permits..*

O1)

- Listed in priority order
- Ideally something for each key stakeholder

Less will be easier to deliver

Less may already be enough given their current workload

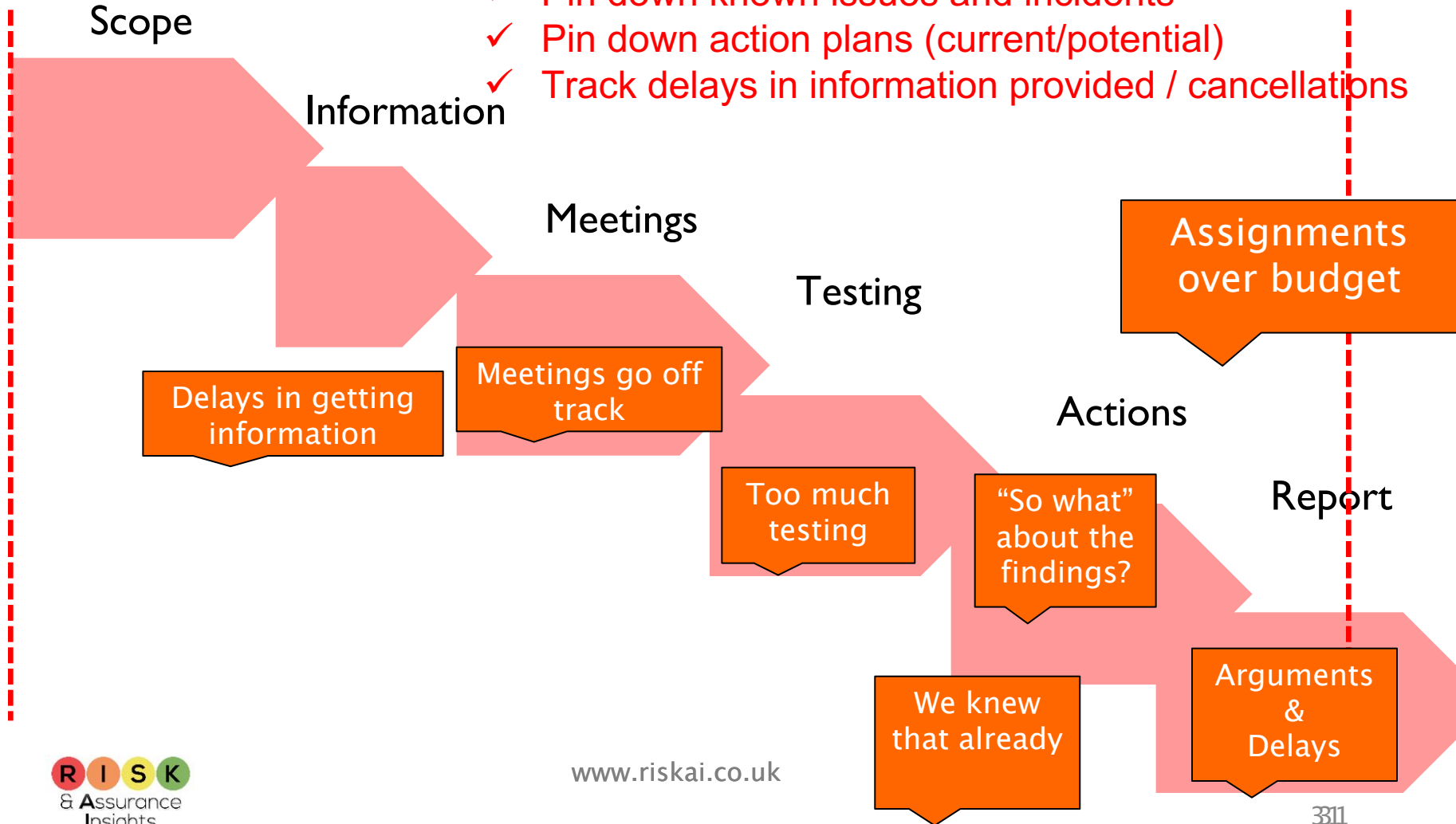
Auditors should start with the key issues first



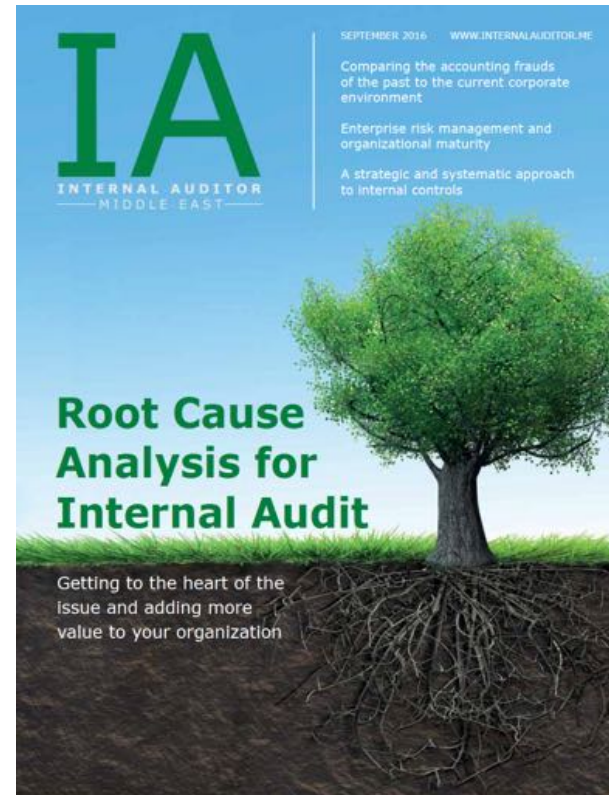
Assignment delivery

Assignments Real world

- ✓ Direct access best
- ✓ Pin down known issues and incidents
- ✓ Pin down action plans (current/potential)
- ✓ Track delays in information provided / cancellations



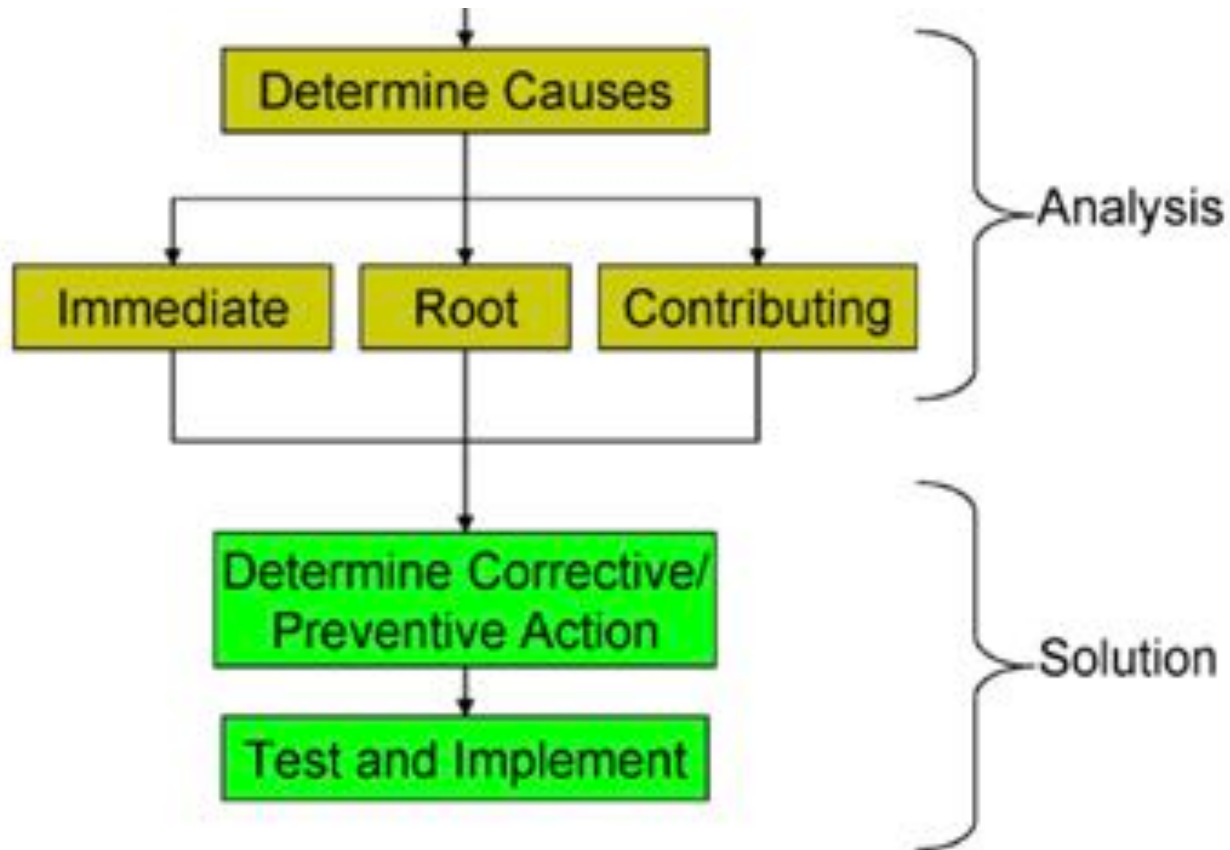
Root Cause analysis



What does the IIA say about RCA? 2320-2

Auditors whose reporting only recommends that management fix the issue — and not the underlying reason that caused the issue — are failing to add insights that improve the longer-term effectiveness and efficiency of business processes and thus, the overall governance, risk, and control environment. A core competency necessary for delivering insights is the ability to identify the need for root cause analysis and, as appropriate, actually facilitate, review, and/or conduct a root cause(s) analysis.

RCA in context





Policy compliance

Case study

Training



900 staff trained (75%)

750/800 (94%) – Office

150/400 (37%) – Site



Root cause analysis – fishbone..

Equipment & Resourcing

No PCs at remote sites

Working environment

Key staff away From the office

Limited e-mail use For key staff groups

Policy roll-out

Publish on intranet

Managers expected to brief

3) New KPIs and follow-up

Wrong KPIs / KRIs

No one looking at roll-out status & Following up

Managers: H&S is a matter For H&S

H&S: Managers will monitor

2) R&R FW

Roles & Responsibilities

1) HSE F2F training

E-learning (Cheaper)

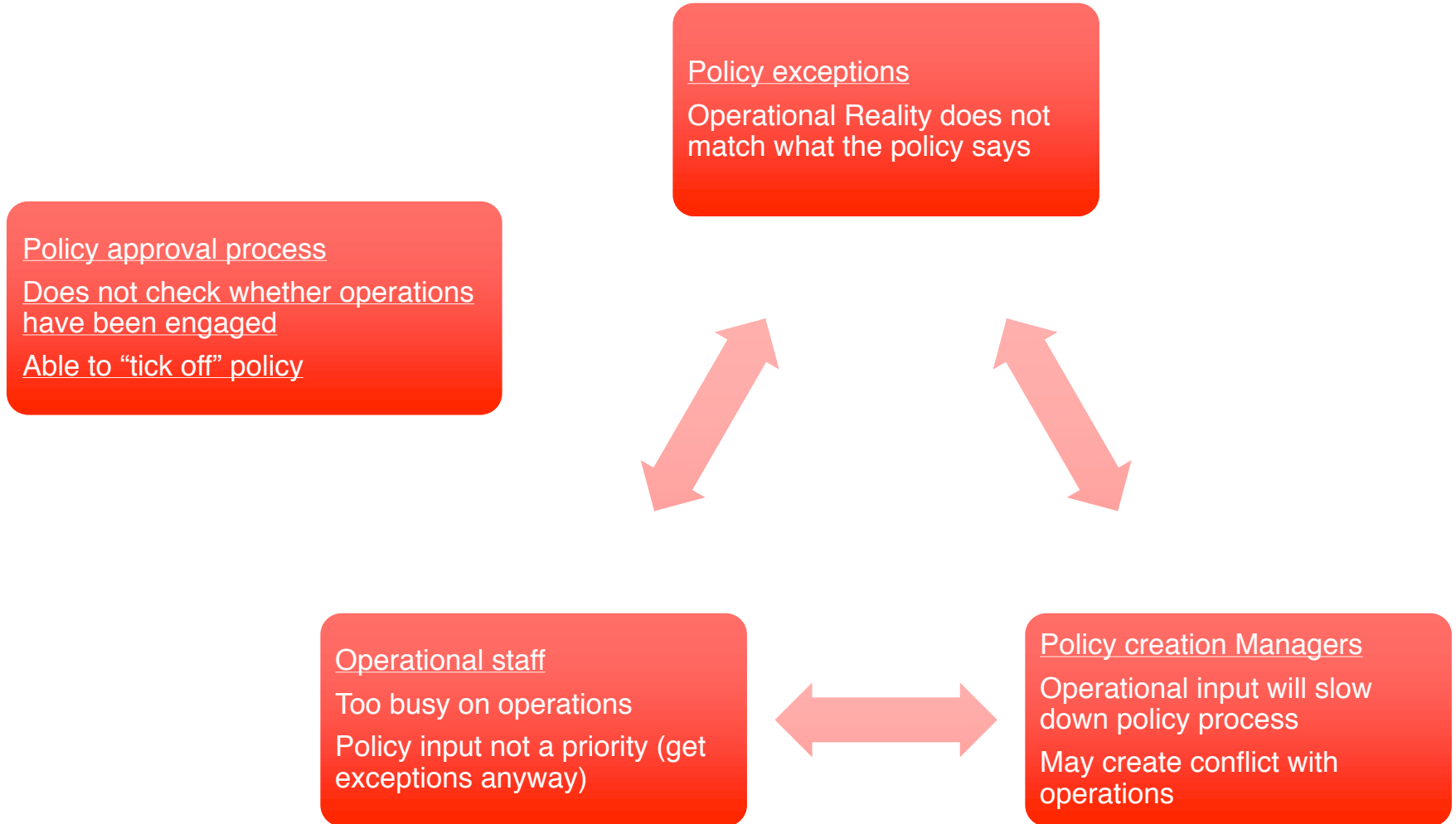
Little F2F

Training approach

H&S ACCIDENT

GRC

Policy Exceptions example



Key approach – 5 whys, 2 legs

Why did it happen?

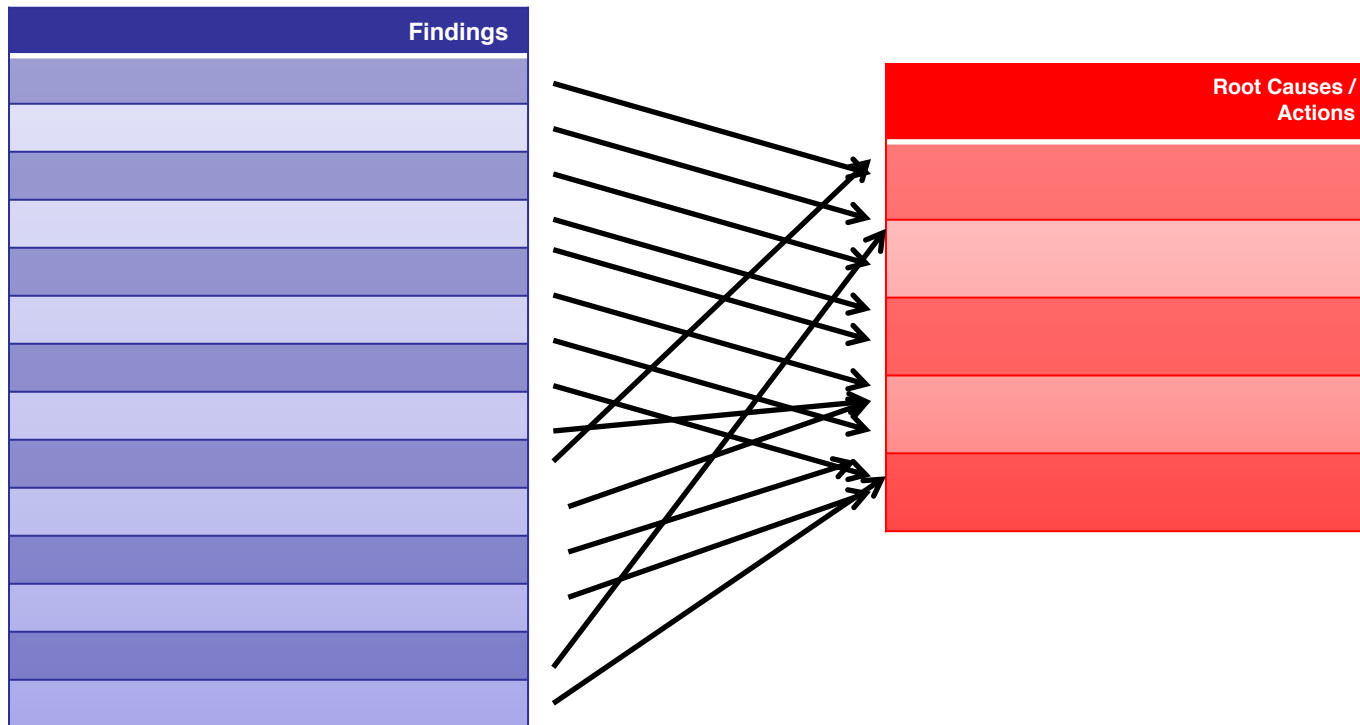
Why was it missed

Never (ever) one Root Cause

Reporting



Findings vs. Root causes and actions



14 exceptions, but only 5 findings
Detail killer facts ~ amounts / external examples

“Risk appetite”

Regarding Project X – O/S facilities management

Cost £1M, Benefits £2M, delivery March 2018

Delivery on a pragmatic “agile” basis

IA finding

Risk assessment is weak
Likelihood of project overspend
Delivery could be delayed

Recommendation

Formalize risk assessments every month
Project management in line with PMF
Or Prince II

IA finding

- 3 unplanned overspends ~ £10K, £25K & £30K
- Cost out-turn not up-dated since October 2016
- Milestone Y missed by 4 weeks
- Business benefits not yet built into budgets £0.3M unallocated
- Specific risk tolerances not clearly defined

Recommendation

- More detailed budget to be drawn up and contingency
- Unbudgeted costs more than £5K to be reported
- Build in £300K of benefits into budgets in the next 6 months, escalate if not agreed
- Create a firmer timeline ahead of go live

Agreeing actions

A hand-drawn diagram of an 'ACTION PLAN' table. The title 'ACTION PLAN' is written in blue capital letters at the top. Below the title is a table with four columns. The column headers are 'WHO', 'WHAT', 'WHEN', and 'HOW', written in red capital letters. The table has two rows of empty cells below the headers. The entire diagram is drawn with green lines and has two red dots at the top corners, resembling pushpins.

WHO	WHAT	WHEN	HOW

How long to remediate the finding?



Ensure this is a management decision
Consider a framework

Follow-Ups



Audit action closure / follow-up



Follow up process

Importance of issue	Approach	Management	Audit
High	Agree action & Verification requirements & Interim milestones	<ul style="list-style-type: none">• Management confirm on track• Management delivery against requirements• Senior Management sign off against verification requirements• Documentation filed centrally	Check verification evidence Selected follow-up
Medium	Agree action & Interim milestones	Management deliver Document	Selected follow-up
Low	Points of note	Management decide action	No action

Reflections on being Savvy

- ✓ Treat all top people with care & respect – take nothing for granted
- ✓ Be equal between Audit Committee and Executives and equal within groups (one might be the next Chief)
- ✓ Be wary of favours outside of a process – you may be being played
- ✓ Education on mindset issues – long-term approach
- ✓ Recognise the number of issues they are juggling – don't waste their time
- ✓ Personal e-mails, not cc'd; Personal calls; Personal briefings
- ✓ Don't ignore being ignored, but don't get irritated!
- ✓ Don't expect to be their friend, sometimes it will just be business!

Learn to be a bit more foxy!

Wolf in sheep's clothing Assignments



- ✓ Learn to recognize them!!
- ✓ Agree assignment timing very early on
- ✓ Short e-mails – direct and personal with deadlines and how you will treat silence
- ✓ Keep track of delays / cancellations – draw out poorest performance
- ✓ Pay attention to assignment scoping and roles (RASCIE-O)
- ✓ Establish and document what is known/being worked on at the start of assignments
- ✓ Look at Root Cause Methodology and be wary of blaming individuals (just culture)
- ✓ Be wary of groups – have a buddy in a high stakes meeting
- ✓ Less is more in writing / recommendations
- ✓ Prepare for key meetings – care taking them head on / saying no to them / being pressured to saying yes
- ✓ Drive rigour around high importance actions – verification requirements – interim updates – limit opportunity for last minute surprises

Welcome

Risk & Assurance Insights was founded by James Paterson, former head of Internal Audit (CAE) of the Pharmaceuticals company AstraZeneca.

Since 2010, James has built his reputation (alongside his associates) as an outstanding provider of audit training and development workshops, being chosen to lead training for numerous IIA organisations in Europe including the IIA Belgium, IIA UK, IIA Norway, IIA Sweden and IIA Switzerland. Tailored consulting on governance, risk, control and compliance is also provided for clients in the UK, Europe and beyond. James is the author of the book 'Lean auditing' and also coaches a number of heads of internal audit on best practices, influencing and political savvy.



BLOG



The Routledge Companion to Lean Management

The Routledge Companion to Lean Management is about to be published and contains an new article on 'Lean Auditing' by James Paterson.



Root Cause Analysis (RCA) – A refresher

This post provides a refresher on RCA with some key pointers to help you benchmark your current approach.



Dates for 2017 added

IIA organisations in the UK, Sweden & Switzerland; MIS Training Institute Audit Leadership workshops & Annual Audit planning workshops.

EXPERTISE



RISK ASSURANCE

Practical solutions for Assurance Mapping, Assurance frameworks and the improvement of Risk Culture.

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Tailored consulting and training on topics such as Auditing Culture, Root Cause Analysis and Auditing in the Pharmaceuticals Industry.

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Recommended reading

Getting started	Getting more complex	Very <i>very</i> thought provoking
<p>Predictably irrational – D Ariely</p> <p>7 habits of highly effective leaders – Stephen Covey</p> <p>Thinking, fast and slow – D Kahneman</p> <p>Influencing without authority – Cohen and Bradford</p> <p>48 laws of power – Robert Greene</p>	<ul style="list-style-type: none"> • Images of Organisation – G Morgan • Seeing Systems – B Oshry • Bear Bull Lemming – Lloyds • Vital lies, simple truths – the psychology of self-deception – D Goleman • The Invisible Gorilla – C Chabris & D Simons • Political Savvy – Joel de Luca • Organisational behaviour – Buchanan & Huczynski • A causal model of organisational performance and change – W Burke & G Litwin • Human Error – James Reason 	<p>In the grip – Naomi Quenk</p> <p>Overcoming Organisational Defenses – Chris Argyris</p> <p>Kluge – the haphazard evolution of the human mind – Gary Marcus</p> <p>Confronting company politics – Beverley Stone</p> <p>The Workplace within – Larry Hirschhorn</p> <p>Power & Politics in Organisational life - A Zalesnick (HBR)</p>

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