

Auditing Post Austerity A Changing Focus?

How influences from austerity, including shifting risk appetites and increasing stakeholder expectations of assurances given have challenged and refocused internal audit

Neil Hunter

LGSS Head of Audit

- Head of Audit at Cambridgeshire CC and Norwich
- Across Clients (MKC/Northamptonshire CC and a few others):
 - Risk Management Lead
 - Contract Audit (Contract Management & Open Book Reviews)
- These are my views and ramblings 😊

Shifting risk appetites and increasing stakeholder expectations of assurances given have challenged and refocused internal audit

- Risk – 4 ways to manage, Accept, Avoid, Treat, Transfer etc..
 - Arguably we increasingly accept (reduce control) or try to transfer (key partners)
- Assurances – what are these, who are stakeholders?

However, Stakeholder Expectations

Should be equal to

Our own Professional expectations (be relevant, honest, independent and add value)

National Picture

- Further deep reductions in UK public spending seems likely – even though in Oct 18, PM states austerity is over!
- Continuing cuts to the public sector must mean a reduction in control and a (forced) increase in Risk Appetite?
- Zero tolerance on public sector failings by stakeholders – clients needs and public expectations don't change
- Blame culture rather than working together, e.g. government current stance that increased knife crime has no correlation with a reduction in police resource
- And Brexit thrown in, just for the sheer fun

Perceived Failings

Just a few

- Banking and industry, time and time again
- Data loss issues
- Hacking
- Safeguarding issues
- Project overspends/overruns - national and local
- Seaborne Freight - awarded a £13.8m cross channel ferry contract despite never having run a channel service and having no ships

And, of course

- Carillion
- Northamptonshire County Council

Carillion

What MPs said about the collapse of Carillion and its Board - (and see the blame shift!)

- “Even as the company very publicly began to unravel, the board was concerned with increasing and protecting generous executive bonuses.”
- The Finance director “was the architect of Carillion’s aggressive accounting policies and resolutely refused to make adequate contributions to the company’s pension schemes, which he considered a “waste of money”.
- “The mystery is not that it collapsed, but that it lasted so long.”
- “We have no confidence in our regulators.”
- “The perception of Carillion as a healthy and successful company was in no small part due to its directors’ determination to increase the dividend paid each year, come what may.”
- “Honouring pension obligations over decades to come was of little interest to a myopic board who thought of little beyond their next market statement.”
- “Carillion relied on its suppliers to provide materials, services and support across its contracts, but treated them with contempt.”
- “The board was either negligently ignorant of the rotten culture at Carillion or complicit in it.”
- The FD’s sale of £776,000 shares “were the actions of a man who knew exactly where the company was heading once it was no longer propped up by his accounting tricks”.
- “Carillion could happen again, and soon.”

Responsibility for contract specification, contract management and open book reviews??

Best Value Inspection, January - March 2018, Max Caller CBE

Northamptonshire County Council (NCC) has failed to provide best value in the delivery of its services & the road to failure has a simple cause

- NCC lost tight ***budgetary control*** and appeared to abandon strong and effective budget setting scrutiny.
- Instead of taking steps to regain control, the Council was persuaded to adopt a ***'Next Generation' model structure*** as the solution. There was not then and has never been any hard edged business plan or justification to support these proposals
- When the ***use of capital receipts to fund transformation*** was introduced by central government, this was seized on as a way of supporting revenue spend by classing some expenditure as transformative.
- Appropriate advice in setting and managing budgets and the ***necessary control mechanisms*** to ensure that the Council complied with the law and good practice are only just now being introduced.
- The Council still appears to struggle to ***take the necessary decisions*** at both member and officer level to control and restrain expenditure to remain within budget constraints.

NCC employs many good, hardworking, dedicated staff who are trying to deliver essential services to residents who need and value what is offered and available. The problems the council faces are not their fault.

In Local Government there is no substitute for doing boring really well. Only when you have a solid foundation can you innovate.

So, What is the point of IA?

- Where were the Internal Auditors?
 - Ticking & Checking?
 - Keeping silent?
 - Reminding everyone that “Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly”.
- Well the last bullet is true – **but not really good enough.**
- To be relevant surely IA (and indeed other key officers, including Finance) must raise concerns in an appropriate way – independent and fearless

**But, still be willing to challenge the traditional view of audit independence
(transformation agenda a good example)**

Audit Evolution

- Modern Internal Audit needs to:
 - Give, evidence based, reliable assurances
 - Give confidence (in the veracity of those assurances) to all stakeholders
 - Offer pragmatic, proportionate and timely opinions & solutions
 - Maintain positive & professional relationships
 - Be fully supportive of the organisation, part of the team, whilst retaining the ability to be fearlessly independent and objective
 - Be experts in understanding *risk* versus *cost of control*
 - Be brave and confident enough to pop heads above the parapet if and when needed!

Internal Audit must become (or remain) *the internal consultants of choice!*

My Considered Response



Challenges for Internal Audit

- We must tangibly Add Value and work even harder to protect , support and advise members, officers and above all the many stakeholders who interact with and rely upon our clients organisations
- We have to ensure the Internal Audit Plan directs resources to the high risk areas of organisations – we have to understand the key risks better
- Internal Audit must work with management to, proportionally, maintain good governance whilst having a keen understanding of risk, materiality and the cost of control
- Head of Audit cannot give an evidence based annual opinion on the entire control environment based on a traditional audit plan and just IA work.
- Need to place reliance upon other third party assurances but verify where appropriate

Challenges for Internal Audit

- Key risks are not just financial, Safeguarding? Sustainability? Partnerships? VFM? Business Analysts? Proactive Counter-Fraud? Intelligent procurement/contact audit such as open book reviews
- Have we got those skills in the audit team?
- There are no easy audit assignments – all require an excellent level of diligence, application and review.
- Constantly changing skills mix – need to keep up to date
- Each of us has to take personal responsibility for CPD and aspire to be the best we can
- Can IA be the pro-active experts in risk and proportionate control that the public sector and its stakeholders need?
- Less traditional audit work and same assurance equals more scope to expand existing services offered – sample testing on established systems, compliance testing on key controls etc..

Challenges for Internal Audit

- Audit naivety now will not and should not be tolerated by increasingly busy clients – we add value or we cease to be relevant. Eliminate those bureaucratic and irritating recommendations!
- Efficiencies impact Internal Audit as well – must become smarter, budgets are very tight, and who loves audit!!

Contract Audit

- Key area to add value
- Numerous controls on procurement to get the right contract
- CM is traditionally a weak area in the public sector
- Contract specification should be a living document and referred to
- Targets, outcomes, performance indicators – sound governance
- Open book reviews – verify data correct, actual costs or reported outcomes
- 3PA

Attributes of a Modern Internal Audit Team

- Engage with S151 officers and key stakeholders
- Develop a shared Audit Plan – flexible with changing in year risk
- Offer every possible audit service, not just traditional assurance
- Being champions of good, proportionate, governance
- Being excellent communicators & listeners (to hear)
- Making smart, VFM and essential recommendations, being innovative
- Suggesting ways to remove bureaucracy and over control
- Being seen as a solution and the first point of contact on risk and governance issues - reliable 'consultants'
- Modern Structure, Qualified or IIA/CCAB/AAT trainees
- Possess a high level of required skills/competencies – buy in skills if needed
- Positive culture, e.g. hard work, role, adding value, CPD. Can do attitude!
- Team culture – challenging, safe & supportive
- Responsive and flexible
- Right first time, every time and to targets
- Engage with like minded audit teams/groups and increase national profile and influence

HOW WE WILL DELIVER

Audit Plan

- Appropriate to needs
- Consultation
- Risk Based
- Assurance on the entire control environment
- External Auditor liaison

Excellent
Quality & Value
Adding Audit
Service

Audit Delivery

- Strong team of qualified & experienced auditors
- Audit specialists
- Professional standards
- Audit protocols
- Regular client updates/discussions
- Prompt audit reporting
- Time & Quality
- Audit Committee reporting

Review & Feedback

- Client Satisfaction Questionnaires
- Post Audit Assessments - CPD – training
- Update risk maps
- Follow up reviews
- Update Audit Plan

Performance Monitoring

- Audit Managers coordinate & manage the audit plan
- Manager review (KPI's)
- ISO 9001 (Quality) accreditation??
- External Audit Review

Questions for Internal Audit colleagues

- What's the point of internal audit if you don't help reduce organisational risk and reduce bureaucracy
- If you know the organisation is not addressing risk or has poor governance in key areas are you happy to avoid raising the issues?
- Are corporate and public sector failings OK?
- Do you want to be seen as just another overhead, totally unaware of the real world and certainly not part of the solution?
- Do you want to enjoy little respect nor have any credibility from colleagues?
- Are you content in simply bayoneting the wounded as people keep on saying to us?
- Are you happy to go home on Friday night wondering how you added value to the organisation or wondering what the point is?

Of course not 😊

So the future for younger finance colleagues
in audit should be

