GLOBAL KNOWLEDGE BRIEF

Solving key challenges of the smaller audit group

Plan, review processes, and utilize resources

The Institute of Internal Auditors

Contents

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Characteristics of organization a big factor

Does size really matter? Or are the challenges small internal audit departments face a function of other things? Alice Mariano, CIA, CPCU, CPA, director of internal audit for North Carolina Farm Bureau Mutual Insurance Co. Inc., posed this question to attendees of The IIA's 2019 International Conference, having been invited back after originally presenting on this topic to The IIA's General Audit Management Conference™ (GAM™) last year. In her session titled *Solving the Key Challenges of the Smaller Audit Group*, she provided insight into ways small audit functions can meet challenges by making the most of their resources.

Mariano has great respect for small audit teams, acknowledging they handle things in unique ways, but she advises internal auditors to consider the root cause of their challenges. Size is often not the cause but rather a result of other circumstances or decisions. She knows the characteristics of an organization make a difference in what is being audited and communicated, and these characteristics don't necessarily correlate to the size of the internal audit team needed.

Consider the effects of, for example, the internal audit department being new to the organization versus being well-established; a very specific audit scope versus broad; a private organization versus public; a board with very little involvement versus one that plays a significant role.

All these factors create different issues and challenges for the team handling internal audit and providing assurance, regardless of size. Mariano said internal auditors need to look at the best practices available and tailor them for what is needed for their organization. "There is no right or wrong way of doing things, just as long as it works for your department and organization," she said. And don't focus on just examples specifically for small audit departments, which could unnecessarily restrict access to good ideas and advice.

When it came to identifying challenges for small audit teams, conference attendees created a long list via an interactive Google Doc in the conference app, and then used it to provide solutions for each. The challenges focused on operations, communication, and talent, each of which prompted a number of solutions from the attendees (see Challenges and Solutions, page 4).

To best meet those challenges overall, Mariano suggests auditors focus on planning, process, and resources to find extra time and add value by taking simple steps they may be overlooking.

Planning is key

- Build time for planning into your audit plan, because planning usually takes more time than expected.
- Discuss and clearly understand expectations. "It would be a monumental waste of time to plan audit activities without having a clear understanding of what is expected of your department," she said. "This not only applies to audit activities but also to documentation. We can spend days documenting the risk assessment, building risk registers, applying scoring methodologies, etc. This is where you may find that you have some room for flexibility."
- Take time to think. "Auditors get paid to think, not push buttons, so set aside time to look for answers that may be hidden," she said. "If you know your organization, you know your expectations, you know your industry, you know your company, you are in the best position to answer challenges. Answers are likely already working themselves out in your brain, you just have to give it some time."

Review processes

- While The IIA's *International Standards for the Professional Practice of Internal Auditing* require internal audit to base the audit plan on a risk assessment, Mariano found she was spending an inordinate amount of time creating a risk assessment just to have it sit on a shelf. Now instead of annual meetings with every manager to talk about risk, she gathers risk information in monthly leadership meetings. "If there is something I need to know more about, I do meet, but now we don't have to wait for the annual risk assessment process. It saves me a lot of time," she said. It helps that her organization's entire staff works at one location, which she realizes is an advantage not all small audit departments have.
- Mariano relies heavily on the notes page in her audit system to document relevant risk items. "I can spend five minutes updating my risk assessment or a couple days updating," she said. Now when going out to do an audit, she and her staff can pull up the risk assessment to see why an area got on the audit plan and what the risks are. Staff can easily update the notes if they learn something new. "Though this works for us, this may not for your organization," she said. "But if you take time to think about the ingredients that go into your risk assessment and how you are using the results of your risk assessment, you may find ways to make the process and the product more meaningful."
- Engage employees and managers in the process. Ask process owners to relay to internal audit what risks and controls they manage, and use that as a guide to walk through the process together. "Engaging them in the engagement planning process allows for a lot more buy-in," she said.
- Standardize systems and processes within your department. "Even if you are a one-man shop, keep things documented the same way, so you can look back at what you did a year ago, or two years ago. When you go into the same areas, you'll know where to look," she said.
- Ask why. Don't be afraid to even ask why you have a plan. "You don't have to do what's been done before," Mariano said. "When you start asking why, a lot of things start falling out and you get a greater understanding of why you're doing what you're doing." When you can answer why, make sure the team knows why, too.
- Be a leader. The organization and the audit committee rely on internal audit to tell them what is being audited, why it is being audited, and the resources required. "If you are not leading that conversation, you are subject to whatever personal experiences those people bring with them," she said.
- Document and communicate with prudence. What is it you want to communicate? Is it necessary? "Ask yourself, why am I sending this? Don't add formality that you don't need," she said. "Sometimes communicating something informally can make you seem a little more human."
- Be flexible, but change with intent. "The audit plan just needs to be something that is agreeable to you and the people you are reporting to," she said.

Take advantage of resources

- The use of tools is another area where internal audit can find advantages. Look closely into what a tool can do, what features it has, thinking: If I could make my own tool, what would it be? “Evaluate your needs as CAE,” she said. “What do you need to track? Is there a way to have one tool that you can produce something for executive management, use in your day-to-day audits, help keep track of things, and function as a CAE as well?”
- Think about your processes before you try to put everything into a system, because you might find things you think save time don’t work. For example, Mariano had risk and control models that came with the software they wanted to use. But they found they were spending a lot of time trying to make the risks identified in audits fit into the provided risk model. And if they had two similar controls for a risk that fell under the same control description in the control model, the system did not allow controls to be tied twice to the same risk. Her team is back to using Excel for audit level risk and controls for now.
- Take full advantage of investments already made. Get training if necessary. “You bought and paid for software that you convinced your audit committee you needed, don’t use it for glorified document storage,” she said.
- Take advantage of The IIA’s resources. IIA *Standards* fit all organizations, from small to large. “Use (The IIA’s Quality Assessment Manual). Look at the quality standards you are being held to, and back up to what you need to do to meet this standard [the 1300 series],” she said. "Chart your path to get there.”
- Seek out other resources, use templates, start a LinkedIn peer group (if one doesn’t already exist to find your needs), find help through social media. Mariano gave an example of needing to understand methods forgers use to alter or “wash” checks and found a video on YouTube demonstrating the whole process. A lot of software program demonstrations can be found via Google and social media, too, providing a quick, anonymous overview.

Challenges and solutions

Operational, communications, and talent remain the biggest challenge areas

Peer-to-peer feedback provides solutions

Thanks to an interactive tool, attendees of Mariano's session at the International Conference were able to list challenges they face as internal auditors in small departments, and also were able to post solutions to other's dilemmas. The challenges and responses covered three main areas: operational, communications, and talent.

OPERATIONAL CHALLENGES AND SOLUTIONS

CHALLENGE	SOLUTION
Departmental awareness of planned and ongoing audits.	Hold weekly meetings using a Kanban board via Trello which tracks all engagements on cards.
Too many requests for audits.	Partner with senior management to prioritize. Hold training for the senior leadership team so they understand what time and resources it takes to perform an audit. Be specific.
Limited hours.	Keep some audits formal (scope, work program, report), while summarizing some procedures/results in a slide to the business owner/audit committee.
Limited resources.	Perform continuous monitoring, but then transition it to the business.
Resource constraints and allocation.	Build flexibility into the audit plan and utilize help from other teams within finance.
Inability to audit areas that should be audited.	Cosource; work together with external auditors to create better coverage; recruit internally for audit assistants as a leadership development opportunity.
Being valued in the organization.	Focus the audit plan on strategic risks facing the organization, which can elevate internal audit's value across the organization and in the eyes of the board.
Adding value.	Focus on high-risk, high-visibility processes to add value to areas management cares most about.

OPERATIONAL CHALLENGES AND SOLUTIONS, continued

CHALLENGE	SOLUTION
Excessive documentation.	Merge multiple templates to improve efficiencies and make the process easier to understand.
Standardization.	Provide written training, write standard operating procedures, and perform the standard procedure real time so it can be observed. Teach through observation and re-performance.
Too much time spent on compliance and not enough on value add.	Hire more staff to provide the mix desired by management. Sell the idea with: This is what internal audit can do; this is what internal audit could do with additional staff; this is what is left on the table without additional staff.
Too much time spent on compliance audits and not enough time on operational audits.	Move the compliance audit experts out of internal audit and into the business area they are auditing so they become a second line of defense function for that business unit. Then staff the team with operational auditors.
Regulatory requirements to audit areas with insignificant risks.	Make the scope as small as possible and audit on a rotation — meaning over the course of five years, more or less, based on the organization. Cover the key areas, but in certain years, some areas are inquiry only and others are quick tests.
Effectively working with ERM.	Have a monthly or quarterly meeting with the director of risk management to share happenings that are relevant to internal audit.
Risk assessment process.	Get other key managers involved in the annual risk assessment so it can be used for more than just audit planning, by regulators, external auditors, and ERM.
Limited emphasis from management on IT.	Hire a third party to perform an IT maturity assessment and use the assessment to educate management on the gaps.
Integrating Sarbanes-Oxley.	Establish parameters, e.g., internal audit will coordinate testing in audits and perform Sarbanes-Oxley testing. Corporate accounting will own planning, walk-through, narratives, and coordinate CFO attestation.
Company knowledge.	Shadow other departments, seek a mentor in other areas of the business, get involved within the organization.

COMMUNICATION CHALLENGES AND SOLUTIONS

CHALLENGE	SOLUTION
To be recognized as something other than a policing function.	Market internal audit, explaining how it is different from external audit. Add value to the organization. Make being a trusted partner part of internal audit's mission and convey that mission during planning and staff meetings. Involve customers during the audit process: Believe and make them believe they are the best to know where the deficiencies and solutions are. As a team, provide friendly and helpful customer service. Ask where you can help. Never scold. Discuss issues with management and make recommendations to help them with their action plans. Take every opportunity to communicate that internal audit is there to partner in making improvements. Avoid the "Gotcha" mentality. CAEs must openly communicate to their team as well as to management that their charter doesn't include being a policing function. Be careful that audits are not focused on placing blame but instead are focused on improving operations or remediating mistakes.
Awareness among management of what internal audit is doing.	Send the executive team a quarterly status summary of current projects and short preview of upcoming projects.
Management does not understand how to use audit.	Rebrand the department. Do a roadshow and presentation across the organization to communicate what value internal audit brings to the table and how the department can best be utilized. Create a "sizzle reel."
No one knows what internal audit is or what its value can be.	Develop town halls on how to think like an auditor and present to the business via departmental meetings along with what internal audit does.
Communication and collaboration across the organization.	Champion an ERM program that enables communication and collaboration across the organization.
Controls are poorly articulated and/or misunderstood.	Hold collaborative sessions on how to design controls, avoiding taking ownership of the design. Together with external audit, observe control owners doing a walk-through with one test sample.
Relationship building with the CEO.	Plan monthly one-on-one meetings to go over the status of the audit plan and projects. Talk about issues observed by internal audit and solicit the CEO's insight.

TALENT CHALLENGES AND SOLUTIONS

CHALLENGE	SOLUTION
Staff retention.	**Focus on work-life balance, flexible hours, and telecommuting. Give staff challenging, meaningful, and relevant assignments that allow them to influence management.**
Keep losing good talent to other departments.	**Embrace the issue. Provide training curriculum in other departments. Have staff spend two years in internal audit and then rotate into the business.**
Training the team.	**Everyone should participate in different conferences or webinars with the expectation to present to the rest of the team on what was learned.**
Experience.	**Use a mix of cosourced and internal staff to bring subject matter expertise into the audit plan, specifically around IT as areas such as cyber are hard to staff full time. A particular skill might not be needed year-round.**
Taking over IT audit function with no experience.	**Recruit the right people, train, and make IT audit part of "audit" as a whole.**
Limited IT knowledge on existing team.	**Engage a cosourced partner for IT audit projects.**
Finding IT staff.	**Engage a cosourced firm to work with and train internal audit staff. Transition responsibility for routine ITGC testing. Arrange with regional firm to provide resources on a per audit basis.**
Linking employee goals to company strategic goal.	**Begin with the corporate goals, link to department goals, and work with staff to create their professional goals.**
Rogue outsourced auditors.	**Integrate internal staff in the scoping and reporting process, rather than allowing the provider to act autonomously.**
Staff does not think outside the box.	**Actively participate in brainstorming sessions to come up with better ideas and challenge staff with possible situations. Add challenges for staff (and CAE) to identify and discuss opportunities to increase revenues and cut expenses as a goal in their performance plans.**

Closing thoughts

One of the best ways to manage a smaller audit group is to demonstrate conformance to the *Standards,* which includes establishing credibility by developing and following a comprehensive quality assurance and improvement program (QAIP) in the audit department. A strategic framework and recommended guidance for a QAIP, found in the 1300 series of the *Standards*, provides guidance on how to develop, implement, and monitor a QAIP, including periodic internal assessments, external assessments, and communication results.

As Mariano referenced, The IIA's "blue book" — the *Quality Assessment Manual for the Internal Audit Activity* — offers a road map to help internal audit establish the department that will ultimately be graded by a QAIP. The manual includes planning guides and a series of related programs that can be used to plan and document the planning. The QA manual has been updated and aligned with the 2017 IPPF, and includes advisory elements identifying successful internal audit practices for continuous improvement. (It is available through the IIA Bookstore.)

Mariano wants CAEs from small audit departments to be empowered to leverage their resources, be flexible, evaluate their processes, and find support from colleagues.

- Think about why things are done.
- Find peers to share information with and bounce ideas off of.
- Check unusual places for information, such as YouTube and Google.
- Leverage thought leadership that is free to IIA members.
- Constantly learn, constantly challenge.
- Use systems and software to the fullest and make them work for you.
- If you can't find it, create it.
- Continue the conversation. Join her LinkedIn peer group: Small Internal Audit Departments.

About The IIA

The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 200,000 members from more than 170 countries and territories. The association's global headquarters is in Lake Mary, Fla., USA. For more information, visit www.theiia.org.

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