

The ACCA logo consists of the letters 'ACCA' in white, bold, sans-serif font, centered within a solid red square.

Think Ahead

Shaping your ACCA

**Internal Audit
focus groups 2018**



ACCA's extensive outreach programme has seen views received from over 170 ACCA members in 13 different locations across the UK. These focus groups covered members in public practice, the corporate sector, financial services, Internal Audit, health and the public sector.

Three focus groups were held with members working in Internal Audit - in London, Birmingham and Manchester.

The purpose of these focus groups is to identify the challenges our members face in Internal Audit and the support that ACCA might be able to provide them as they meet these challenges. These meetings play an important role in helping to shape ACCA strategy, products and services and ACCA is grateful to the members who attend these groups to provide feedback.

Disclaimer

The views expressed are those of ACCA members attending the focus groups, and do not necessarily reflect the views of ACCA.

Internal Audit

Shaping Your ACCA

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1. Technology

It is possible to do a lot with Excel but it is recognised that data analytics is more powerful than Excel.

The use of data analytics is steadily increasing and, more importantly, is expected to grow significantly as the rest of the business buys into the concept.

In all locations there was a range of usage of data analytics but it is yet to be fully embedded in almost all of the companies represented. There are a number of reasons for this – a lack of funding, simply not making use of tools that are available, being satisfied with using Excel to interrogate data, and data access.

In all three locations, it was clear that funding issues in the public sector are limiting the opportunities to bring in data analytics tools. Some attendees reported that they are nowhere near being able to use data analytics tools, whilst others are either in the procurement process or are starting to look at training up staff to use such tools but they do not have any dedicated time to learn how to use them. However, it is not only the public sector that is underutilising data analytics.

Some attendees try to consider what data analytics can be used when scoping an audit but often end up looking at last year's file out of habit. Other attendees have had interrogation tools for several years but have not used them until very recently. Even having started to use data analytics, many feel that they are not utilising it as much or as actively as they could. They are not using it systematically. Rather, it tends to be used on an ad hoc basis.

It is possible to do a lot with Excel but it is recognised that data analytics is more powerful than Excel.

Smaller banks are still relatively low tech and use spreadsheets – their data currently available is not in a usable format so they would not be able to take advantage of data analytics even if the business was willing to consider it.

Data access was identified as a problem in all locations because of antiquated systems or multiple antiquated systems, parts of the organisation operating in silos, or a lack of direct access to data.

A good example of the types of problems that can arise with data access was provided by an attendee who works in an organisation made up of six separate companies that each operate in silos so data access is extremely difficult and data analytics is not an option. Another attendee is in an organisation whose legacy software systems are so antiquated that it is unlikely to be possible to extract useful information to be able to use for data analytics. Some attendees have their systems based elsewhere – or have to request data reports from external providers - and it is difficult to make the right contacts in the IT department there to get the data needed in an appropriate format. Smaller banks and the public sector similarly have access to systems issues and are unable to get data in a usable format.

Two attendees have data champions in their organisations that pull data out of the systems for them to use – one has data warehousing which makes data access easy – but these attendees were in the minority for being able to readily access their data.

Nevertheless, the use of data analytics is steadily increasing and, more importantly, is expected to grow significantly as the rest of the business sees the value of data analytics and buys into the concept. However, data access issues mean that more than half of the attendees at these focus groups are not able to take advantage of data analytics until appropriate data structures are in place.

Some businesses are embracing the power of data analytics and providing more technology and software to their Internal Audit functions.

Bigger organisations have specialist IT auditors in specialist IT audit teams – there are few jobs for hybrid business/IT auditors.

In London, one attendee is already using technology extensively – every audit involves data analytics and the Internal Audit team briefs the script writers. It is absolutely embedded in that company which is a very large corporation. Big banks are also making use of data analytics, having set up dedicated data analytics teams in the past 12 to 18 months. Those teams are being built up and more technology is on the way but for data analytics to be helpful, those writing the scripts/algorithms and doing the analytics work need to understand the business.

Elsewhere, those that have access to data analytics have started to use it more proactively in the past year. Some businesses are embracing the power of data analytics and providing more technology and software to their Internal Audit functions.

Many of those who are starting to use data analytics expect that its use will become widespread as the business buys into the concept once it sees what is possible. The maturity of data analytics usage depends on the size of the Internal Audit function – a large one will have advanced or bespoke data analytics software whilst a smaller one will have an off-the-shelf product or nothing.

Some are only using data analytics for certain audits – such as payroll, purchasing, access to controls and expenses audits. All of the attendees recognise the power of data analytics but there can be too many systems to pull data from to use data analytics all the time. Most of the attendees are moving towards more powerful software to take advantage of data analytics. However, smaller Internal Audit functions are not yet using it.

The attendees emphasised the need for expertise to be able to write the scripts to get the correct data. Unless you know what you want to get out of the data, data analytics has little value. If the script is not correctly written then you can end up with a false positive.

Business auditors are doing standard IT audits but more complex IT audits are either outsourced by smaller organisations or dealt with by specialist IT auditors in-house in big organisations. The latter often have a limited operational knowledge of the business.

In London, IT auditors are seen as skilled qualified auditors who understand complex IT issues. However, they are often devoid of operational knowledge of the business although that is not too much of an issue for standard IT audits like IT general controls. It is more of an issue for, say, a creative tech business. Bigger organisations have specialist IT auditors in specialist IT audit teams – there are few jobs for hybrid business/IT auditors. Somewhat going against the trend, some organisations in Birmingham have or encourage dual-skilled Internal Auditors that can do business audits as well as IT audits, although complex IT audits need to be outsourced.

Internal Audit understands the reports produced by IT Audit, and Audit Committees seem to be asking relevant questions on the basis of those reports.

Access controls and applications controls are part of every audit and can be done by business auditors.

In Manchester, many attendees have outsourced or separate IT functions with which they have no interaction. However, Internal Audit understands the reports produced by IT Audit, and Audit Committees seem to be getting better at asking relevant questions on the basis of those reports. Cyber security is on the agenda for Audit Committee meetings and they seem engaged on this issue. One attendee is working towards Cyber Essentials accreditation which seems to be as much assurance as her Audit Committee wants.

At least half of the attendees in London outsource IT audits and IT auditors are very much in demand. In Manchester, one attendee working in the public sector outsources IT audits to the IT audit team that another council has in-house. Health and local government integration means that there is more information sharing which makes IT systems more complicated so IT audit is a growing area.

Access controls and applications controls are part of every audit and can be done by business auditors, but anything complex requires a specialist and IT audit is mostly separate from operational audit with little or no integration.

If the margins within a business are not tight then the business can be blasé about inefficiencies or even financial penalties. They can be inefficient yet still very profitable. Reputational damage and losing clients is much more important to such businesses than internal fraud and the business wants Internal Audit to focus on what really impacts the profitability of the business – so information security is a priority because of the reputational damage that would occur if there was data leakage

2. Concern about the blurring of lines between risk management and Internal Audit

Internal Audit is recognised as being the most risk aware part of the business and also has a view of the business as a whole.

Risk should drive where Internal Audit is looking if the risk maturity is there. There is a critical link between the two areas.

Whilst there is some limited concern about the blurring, overall it is seen as good thing for Internal Audit to have a greater involvement with risk so that it can be more relevant to the business and be seen as partner rather than police.

A poll on this question of nearly 150 Internal Auditors¹ found an even split between those who were concerned about the blurring of lines, those who were not concerned, and those who had not noticed any blurring.

In Birmingham, there was some concern about the blurring – one attendee looks after the risk register despite being in Internal Audit. Another attendee gets pulled in by different parts of the business for help to update the risk register – this is because Internal Audit is recognised as being the most risk aware part of the business and also has a view of the business as a whole. Despite the concern, it was seen as a good thing for Internal Audit to have a greater involvement with risk so that it can be more relevant to the business and be seen as a partner.

In Manchester, one attendee is being asked to do more health checks and fewer formal audits with recommendations. This seems to be a move towards helping the business achieve its objectives.

In the professional services sector, data is king so there is plenty of data - particularly about fees – and there is recognition of Internal Audit within the risk and compliance set up. It is a heavily regulated sector so it can be difficult for Internal Audit to add value if it stays within its traditional remit, so some blurring will help Internal Audit to stay relevant to the business. Risk should drive where Internal Audit is looking if the risk maturity is there. There is a critical link between the two areas – they go hand in hand - and the audit programme should be based on the risk report.

In London, none of the attendees is concerned about the blurring of lines between risk management and Internal Audit. Whilst business needs to improve its understanding of the differences between the two areas, it was felt that the Internal Audit function is more relevant to the business if there is a blurring – otherwise they are just seen as policing the organisation rather than being a partner that can help the business achieve its objectives.

1. Made up of live participants in an ACCA UK Internal Audit webinar in March 2018 and the attendees at these three focus groups in June 2018

Companies are often not willing to recruit enough staff to separate out the different lines of defence into separate teams.

Senior management is not interested in risk management. It does not understand that managing risk can save the business money and takes a reactive approach to risk.

In Manchester, the attendees are not unduly worried about the blurring of lines – in the words of one attendee, they ‘work in the real world’ where companies are often not willing to recruit enough staff to separate out the different lines of defence into separate teams, so they have to accept that reality. They all face slightly different challenges – one attendee (in financial services) works in a team where all three lines of defence are required and represented but risks are identified and there is assurance that controls are in place. For another attendee there is no audit of the risk management function because Internal Audit is not independent. In contrast, another attendee has been recommended by another regulatory body to do an audit of risk management because Internal Audit is not directly involved in updating the risk register so can have some independent oversight. Another attendee has the knowledge of risk management in the business and holds the Board to account on the strategic risk register. Another attendee reported that the risk management team is in a silo and does not interact with Internal Audit.

One attendee is running risk management workshops for the first line of defence. The risk immaturity of his company means that he is helping the risk management team with risk management which is not ideal, but risk maturity will come with time. Internal Auditors are always mindful of the need to be independent and are very clear about their role in relation to risk management and defining that role to the business and the risk function. Care is taken to preserve their independence when proposing a solution (as opposed to making a recommendation) and they can be a conduit to facilitate an idea. They can push the idea by regular reminders and influence the business but they will not implement any solutions. Consequently the attendees are not worried about any blurring of lines.

As a footnote, it was felt in one location that, in general, senior management is not interested in risk management. The business does not understand that managing risk can save the business money and takes a reactive approach to risk – one company only increased its IT security team from 20 to 130 after it was hit by security issues.

3. The top three audits this year

Culture remains a difficult audit to get onto the programme, let alone carry out. Internal Audit is concerned about the toxicity of doing a culture audit in-house.

Senior management needs to buy in to the audit otherwise it will not happen since culture comes from the top.

The top three audits this year

Not surprisingly, GDPR preparedness and cyber security were top audits this year for most. Culture remains a difficult audit to get onto the programme, let alone carry out. It needs support from top management – or the Audit Committee – but even with that, Internal Audit is concerned about the toxicity of doing a culture audit in-house. The recommendations from an outsourced culture audit may be taken more seriously so there is a preference to outsource such audits where possible.

A poll on this question of nearly 150 Internal Auditors² found that the top audits this year were GDPR preparedness, cyber security, risk management, and procurement/contract management.

In all locations, GDPR preparedness and cyber security were two of the top audits this year for most attendees. Those not yet doing GDPR audits are working towards them and it is seen as a high risk area.

Other top audits were contract management and monitoring, procurement and outsourcing (particularly in relation to data protection), performance management, anti-money laundering, and cash saving (looking at the manner in which cash savings have been achieved).

In the financial services sector, other top audits are risk culture, code of conduct, competition law for banks, whistle-blowing, and MIFID 2.

In the public sector, health and local government integration – and the governance arrangements around that – is a top audit for the sector this year. Overspends and the underlying reasons is also a top audit this year.

London attendees discussed how culture is a difficult area to audit and there are many techniques but organisations may not consider them acceptable. There has been a move to bring pseudo-science into culture audits (analysing telephone calls for example) to make it less of an opinion and more acceptable to the business.

Senior management needs to buy in to the audit otherwise it will not happen since culture comes from the top. One attendee is only having a culture audit because the NEDs demanded one. Another attendee is outsourcing his culture audit because it is toxic – it could cause huge resentment within the business if it were done in-house. Internal Audit is afraid to do culture audits for fear of offending the business so outsourcing is a solution. An added benefit of outsourcing is that the business is more likely to take recommendations seriously if they come from an external source. It speaks to the culture of a business that Internal Audit has to worry about this but the reality is that there could be consequences for an Internal Audit team that does a culture audit in-house.

Similarly in Manchester, culture is not on anybody's programme although one attendee very much wished it were on her programme. In Birmingham, one attendee wanted culture on the audit programme and was emphatically told that the answer was no – a potential indicator that there is a culture issue within that business.

2. Made up of live participants in an ACCA UK Internal Audit webinar on 27 March and the attendees at these three focus groups

4. The key challenges as an Internal Auditor right now

The biggest challenge identified was ensuring the relevance of Internal Audit to the business.

For local government, elections can mean that how Internal Audit is viewed can change every four years.

The key challenges as an Internal Auditor right now

Managing multiple stakeholder expectations and keeping up with technology continue to be two of the key challenges facing Internal Auditors. However, the greatest challenge is ensuring the relevance of Internal Audit to the business – if the business sees the work of Internal Audit as helping to achieve its objectives then recommendations will be actioned.

A poll on this question of nearly 150 Internal Auditors³ found that the key challenges as an Internal Auditor right now are keeping up with technology such as data analytics, maintaining the right/broad range of skills required, and meeting the expectations of different stakeholders.

In Birmingham, meeting the expectations of stakeholders, gaining trust from the business, maintaining the right/broad range of skills required, and keeping up with technology were all cited as key challenges. However, the biggest challenge identified was ensuring the relevance of Internal Audit to the business. The business should feel driven to action recommendations because they see the work of Internal Audit as relevant to the business achieving its objectives. Risks should be owned by the business but they should be asking Internal Audit for assurance on their controls – but that can only happen where there is risk maturity and Internal Audit is seen as partner rather than police.

Some of the key challenges facing attendees in London are the antiquated systems and shiny new bolt-ons that make it difficult to access data for data analytics. For example, one big bank has systems that are 50 years old. Managing multiple stakeholder expectations, the pace of regulation changes and new rules, and having the budget to do the necessary work are also key challenges. Departments are being reduced and for local government, elections can mean that how Internal Audit is viewed can change every four years.

Attendees in London and Manchester mentioned talent management – recruiting and retaining staff.

A key challenge is getting reports reviewed by senior management and recommendations actioned. One attendee reported that her organisation had an 18% follow up from the last Audit Committee meeting. Every part of the business says it does not have time to action the recommendations across all sectors. It was agreed that the root cause of inaction was culture.

Using a colour coding system can lead to fights over the colour that a report gets when in reality the discussion should be about whether the finding is correct. Even a green in an RAG system can be counter-productive since people will think that they do not need to do anything. Follow ups by Internal Audit focus on red and amber so there is concern about what happens with the greens.

3. Made up of live participants in an ACCA UK Internal Audit webinar on 27 March and the attendees at these three focus groups

Internal Audit can enhance its credentials within a business by having sympathy for the pressures of the business, but ultimately Internal Audit has a job to do.

Internal Audit can enhance its credentials within a business by having sympathy for the pressures of the business, but ultimately Internal Audit has a job to do. However, if there is scope for Internal Audit to do audits that avoid the pressure points of a particular part of the business then showing such sympathy can help to show that it is a partner. It may be possible to get assurance from other sources – such as the external auditor. Assurance mapping would help but education is needed as people often do not realise that what they are doing is assurance.

5. How ACCA can help

The one thing that ACCA could do is to promote Internal Audit as a career – as that would then help with recruitment.

If non-auditors and non-accountants could be educated on risk and assurance then it would make the lives of Internal Auditors easier.

How ACCA can help

The most important thing that ACCA could do to help its members working in Internal Audit is to promote Internal Audit as a career (to help with recruitment), and to educate non-auditors and non-accountants on risk and assurance so business can see Internal Audit as a useful tool. Other support relates to CPD – particularly soft skills training – and a conversion course for those moving into Internal Audit.

The one thing that ACCA could do is to promote Internal Audit as a career – as that would then help with recruitment. Recruitment is proving very difficult at all levels and across all sectors. It seems that at graduate level, what people go into is changing and there just are not enough people out there for the jobs going. Long hours are expected of a life in audit but it was suspected that graduates do not think that deeply about such things so there is no obvious explanation for the lack of people going into audit. The bad press about AI and automation replacing accountants is also unlikely to be deterring graduates from going into the profession either. It seems that people do not understand what Internal Audit is when they come out of school or university so they do not consider it as a career.

The attendees would like ACCA to help increase appreciation of the Internal Audit profession. If non-auditors and non-accountants could be educated on risk and assurance then it would make the lives of Internal Auditors easier. Perhaps a five minute YouTube clip entitled “Tell me about Internal Audit” that would show how Internal Audit is a tool for the business and give some practical examples – perhaps taking the risks and controls with health and safety (that everybody understands) and extrapolating that to a business risk and control.

The Internal Audit hub on ACCA UK’s website needs to be more prominent, updated and have an archive of past e-bulletins within it. CPD articles in the e-bulletin should also cover soft skills. A useful addition to the Internal Audit hub in general would be soft skills training – such as influencing skills, questioning techniques and effective audit conversations which would be particularly helpful for junior staff. A conversion course for people moving into Internal Audit should be developed – or factsheets/webinars – as it is a completely different mind-set. A risk and control identification course for new Internal Auditors would be part of that – also showing what working papers should look like.

Webinars are convenient and there is no cost, which is important because training budgets for Internal Auditors are very limited.

ACCA should make it easier to get CPD that is more Internal Audit specific. The webinar series on De-mystifying IT audit for business auditors was very good. Webinars are convenient and there is no cost, which is important because training budgets for Internal Auditors are very limited. However, face to face networking on a regional basis would also be welcome. The Big 4 run a Heads of Internal Audit programme – perhaps ACCA could sponsor or co-host such a programme to provide networking events regionally.

Other suggestions for ACCA support:

- An MOT checklist as to what Internal Audit should be doing would be useful – rather than paying for a third party to come in to check that they are performing well.
- An article on streamlining audit files – the minimum standards that ACCA would recommend for Internal Audit working papers.
- A blog on life in Internal Audit – the Secret Internal Auditor.
- ACCA UK's Internal Audit LinkedIn group could signpost members to other useful websites or courses.

6. The development of the Internal Audit profession

Depending on the structure of the business, a blurring of the risk and Internal Audit functions would be a good trajectory for the profession.

Some feel that technical skills are becoming less important whilst soft skills like influencing and persuasion will become more important.

The development of the Internal Audit profession

Technology will become increasingly important in Internal Audit as the use of data analytics grows so business auditors will need to improve their analytical skills, but they will also need to build up their soft skills as influencing and persuasion also become more important. How Internal Audit feeds back on audits is part of that.

Attendees in London suggested that, depending on the structure of the business, a blurring of the risk and Internal Audit functions would be a good trajectory for the profession – Internal Audit should take on more risk (outside of regulated sectors like banking and big organisations) to help develop a risk culture and help people to control their risks (as opposed to doing risk management).

In Birmingham, it was felt that business auditors need a good knowledge of AI and data analytics going forward and the accompanying skills. Some feel that technical skills are becoming less important whilst soft skills like influencing and persuasion will become more important. Those with soft skills can influence clients much more than those with technical skills. Conversely the advent of data analytics means that analytics skills will be needed. The balance between the two types of skills will be influenced by the type of organisation and the sector that it operates in but the profession will need both types of skills.

In a similar discussion in London, one attendee asked if general business auditors are going the way of the dinosaur – will Internal Auditors need to up-skill and obtain CISI and data analytics skills and qualifications? Most of the attendees felt that general business auditors are still very much the norm and that there will always be a demand for them because dedicated specialist teams are too much of an expense for most companies and so they want their business auditors to wear multiple hats. Working as a business auditor in a large company provides a wide variety of roles and consultancy opportunities.

Perhaps it is time for a campaign on whistle-blowers to raise awareness in the workplace.

Technology will become more and more important to the Internal Audit profession so Internal Auditors need to future-proof themselves to that end. Will there still be any prestige to having a qualification – or will AI do data analytics in which case why get a qualification? Culture may be more important in the future.

How Internal Audit feeds back on audits needs to change – one attendee feels that the manner in which this happens has not changed in 20 years with thick reports being the norm in the corporate sector. However, the world has changed. Whilst a report will always be needed to prove that the work has been done and issues highlighted, discussion points to identify gaps as part of a presentation might be more effective.

In Manchester, it was noted that Internal Audit was barely mentioned when Carillion failed – nor is it mentioned whenever there is a big failure because it is not seen by the public. Internal Audit cannot stop such failures unless whistle-blowers come forward. Perhaps it is time for a campaign on whistle-blowers to raise awareness in the workplace.