

Strong collaborative relationships based on a genuine understanding.

TAKING ACTION TO MANAGE RISKS AND DRIVE IMPROVEMENT

Responding effectively to internal audit management actions

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TAKING ACTION TO MANAGE RISKS AND DRIVE IMPROVEMENT

When having an internal audit review, organisational processes and procedures are under the spotlight. Management and heads of departments may naturally be keen to receive a 'green' substantial assurance opinion, but there is often an opportunity to make improvements. It is important to recognise that the role of internal audit is an independent role within an organisation to help it identify and manage its risks. Internal audit only reports to the organisation, it is not acting on behalf of external stakeholders or regulators.

This paper provides guidance to management on some of the key things to think about when an audit is planned for your area. In particular we outline management's key role in the audit scoping process as well as how you consider and respond effectively to internal audit recommendations or management actions?

Understanding risks and implications

In delivering a risk based internal audit plan and in covering the breadth of organisational processes, beyond financial risks, internal audit is key in informing senior management and audit committees (or equivalent) of how well the organisation's systems and processes are operating. In evaluating an organisation's risk management, internal audit highlights exposures and agrees management actions, which if implemented, enable an organisation to be better placed to achieve its objectives.

In developing the risk based internal audit plan effective collaboration between senior management, audit committee and the internal audit provider is key. This enables a suitable breadth of internal audit coverage across organisational risks to be achieved. Ensuring there is internal audit coverage in areas where there have been procedure or system changes is natural and helps to manage risks. At RSM, we provide an agile internal audit plan, responding quickly and flexibly to emerging areas of risk and assurance needs across our clients.



Scoping an internal audit review

Whilst the strategic plan will set out the reviews internal audit will undertake during the year, it is essential that each audit assignment is effectively scoped. The assignment planning sheet (APS) sets out the objectives of the review, the scope and limitations, requested documents and timescales and must be agreed by the organisation. This relies on effective communication and collaboration between internal audit and organisational management.

Key considerations for auditees – line management and Audit Sponsor

- At the assignment planning stage, management should raise any concerns or areas where they need specific assurance with internal audit at the outset. By actively discussing potential areas of concern or weakness in the area being audited will help to ensure the review focuses on the right areas, and where assurance is needed, in light of the associated risks.
- Following discussion on the scope of the review, management will receive an APS six weeks prior to the audit commencing. The Audit Sponsor (usually a senior executive) should review the APS and raise any amendments or proposed changes to the scope on a timely basis. The audit will be performed in line with the agreed APS, so it is essential that the Audit Sponsor is comfortable with the scope of the audit being proposed.

- Internal audit will want to be sure their review focuses on where assurance is required but naturally there will be limitations, detailing areas outside of scope. Effective communication is key, as given the associated risks management may find it beneficial to use contingency resource to bring more areas within the audit scope.
- At the start of the review all information and access to systems should be available to internal audit to enable effective use of time and to ensure the review does not over-run. The opening meeting should also be used to share any management concerns that may have come to light following initial scoping.

Internal audit: RSM's approach



Identifying actions and addressing control weaknesses

As part of our internal audit assignment reviews, we agree actions with management, which if implemented will address internal control weaknesses, bring improvement to processes and manage risks. Both senior management and the audit committee should have assurance that action is being taken. In helping organisations to effectively prioritise their efforts and resources, we agree high, medium and low priority management actions to reflect our assessment of risk associated with the control weakness. Any high action requires immediate attention.

Key considerations for auditees – line management and Audit Sponsor

- Following fieldwork, internal audit will hold a debrief meeting. To have an effective debrief meeting it is essential that organisations field the right individuals to attend the debrief to ensure that both detailed operational and wider strategic implications can be considered.
- The management actions agreed at the internal audit debrief stage will be captured in Management Action Implementation Plans set out in the draft internal audit report. This plan should set out the required action needed, identify action owners, resource requirements, the priority and include specific implementation timescales. This draft report stage gives management the final chance to sense check that they are happy with the agreed management actions in terms of the action needed, its ability to address the weakness identified and the achievability of the action in terms of implementation and timescale.
- Implementation dates should be realistic, achievable in light of time and resource availability, and link to the severity or categorisation of the action raised.



For an effective outcome from the debrief, management must have a clear understanding of the following.

- Risks being explored by the audit.
- The audit findings. What have internal audit looked at and tested? Are any weaknesses identified by internal audit related to an absence of control, a poor design of control or a lack of compliance with an existing control?
- The implications of the weakness identified by internal audit. Has the risk actually occurred or is it a potential risk? What could go wrong? Is there a potential risk of:
 - an organisational objective will not be achieved;
 - operational delivery may be impacted;
 - loss of resource, income or unnecessary expenditure or poor value for money;
 - loss of assets;
 - reputational damage;
 - regulatory or statutory breach; or
 - fraud or irregularity etc.
- Does the understanding of the system by internal audit fit with the view of the system that management have? Have internal audit been made aware of any compensating control that may be in place which will address the risk and control weaknesses identified by internal audit?

- Consider the solutions to the problem. Some internal audit providers will impose 'recommendations' on their view of the action that the organisation must take to mitigate and control the risk identified.

The RSM approach is to discuss the issues and weaknesses with management and jointly agree practical, pragmatic, achievable and cost effective 'management actions' that will address weaknesses. It is important that management engage with this process to agree and ensure the actions are achievable and the timescales are realistic given other work and resource pressures.

- Are the solutions identified practical and sustainable? Can management carry on doing it, building it into workflows or will the solution lapse over time?
- What evidence will there be to demonstrate improvement? When considering the solutions and developing the management actions, the organisation needs to consider how their implementation will be evidenced or demonstrated.



Having confidence that action has been taken

To ensure control weaknesses are being addressed timely, senior management and audit committees will be keen to understand the status of management actions. Whilst there may be variation in the approach, it is common for organisations to have a procedure in place to track the status of agreed management actions. Action tracking is a management responsibility, but internal audit often uses the tracking information provided by the organisation as a basis to perform follow-up testing. Regular reporting on the status of actions to senior management and audit committee helps to ensure focus is maintained after the audit has finished. It facilitates accountability and helps ensure the organisation doesn't lose sight of the actions it needs to take to bring improvement and manage risks.

Key considerations for auditees

- The process for tracking management actions should be clearly defined, with set procedures communicated to managers, and timescales adhered to. Communication is key, as any process and timelines should have reference to the internal audit plan and any scheduled follow-up engagements.
- Where actions are reported as complete, evidence needs to be captured. This helps ensure the action has been implemented as expected and it has addressed the control weakness previously identified. This is an important consideration as internal audit may not follow-up every management action agreed in light of time and resources.
- Action tracking software for a full audit trail, assigned action owners, and real time reporting is beneficial. Dashboards can provide high level summaries and facilitates effective reporting to audit committee. Ideally, management reporting should include recommendations from other assurance providers in addition to internal audit.

Cost and benefits

Assurance comes at a cost and whether internal audit is mandated in your industry or not, organisations are rightly looking to maximise value and ensure efficiency. Ultimately, all organisations should be sighted on the effectiveness of their governance, risk management and internal control processes. With a suitable breadth of coverage, internal audit helps organisations to achieve their objectives, to improve processes, and identify efficiencies. Yet, this is only achieved through taking action.

Key considerations for auditees

- The internal audit plan should be kept under review and adapt to changes in the organisation's risk profile. Working collaboratively with internal audit ensures the internal audit strategy responds flexibly and quickly to an organisation's changing assurance needs, and that assurance is always focused on the right areas.
- Organisation's should effectively monitor the implementation of management actions and implementation plans, and by working collaboratively with internal audit, greater efficiency can be achieved. Where actions have not been taken, senior management and the audit committee will need to be comfortable with the level of risk exposure this presents.
- In identifying control weaknesses, internal audit will have found systems and processes requiring improvement. Implementing management actions mitigates the associated risks, provides assurance to stakeholders and helps to support compliance with regulatory requirements and legislation.

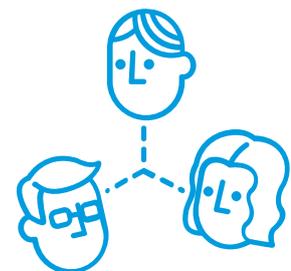


Internal audit follow-up reviews

Through follow-up, internal audit independently assesses the implementation of actions agreed with management, obtaining evidence of actions completed and those that are outstanding (either fully or partially). As part of our follow-up reviews, we set out whether there has been good, reasonable, little or poor progress in implementing actions.

Key considerations for auditees

- Follow-up reviews, to confirm that action plans have been implemented by management, are a requirement within the internal audit Standards. There is variation in the approach to follow-up across organisations but as a minimum, a follow-up review will take place following any previous negative assurance opinion received. Follow-up provides confidence that control gaps have (or have not) been rectified.
- By collaborating with internal audit, organisations can discuss where follow-up work is best placed to minimise risk exposure and improve controls. Where risk management is embedded, follow-up can often be targeted at those risks that feature higher up on the risk register.
- Communication with internal audit is vital. For example, any system or departmental changes that may have occurred after a management action was initially agreed may mean the original action is now superseded or additional audit work is required to understand any new risk exposure.



Summary

With the reach, authority and independence of internal audit, organisations have a much better understanding of the nature of their risks and the effectiveness of the control environment. The conclusions reached will be based on triangulation of evidence and appropriate testing, providing for a strong evidence base. As such, the findings from our internal audit reviews and subsequent implementation of management actions are key to enhancing the internal control, governance and risk management of the organisation. It provides comfort to senior management and the audit committee that risks are being managed and that action is being taken by management to strengthen control weaknesses.

HOW RSM'S 4ACTION™ CAN HELP CLIENTS

4action™ part of RSM's Insight4GRC software suite, is a powerful action tracking software system that helps ensure your agreed management actions and tasks are tracked and their performance monitored.

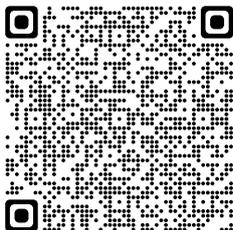


Key features

- A full audit trail of all assigned actions and tasks.
- Extensive dashboards enable the identification of areas of weakness.
- Break actions down into stages.
- Flexible onscreen reporting.
- Track assigned actions and tasks all from a single simple interface.
- Automatic email reminders ensure users are prompted to update their actions.

4action

<https://youtu.be/xEuFSwzbzvw>



INSIGHT4GRC

Insight4GRC (www.insight4grc.com) is RSM's proprietary digital governance, risk and compliance solution.

We have over 300 organisations that licence and use one, some or all, of the Insight4GRC modules, being 4risk, 4action, 4policies and 4questionnaires. Insight4GRC provides management with real time information in connection with the identification, assessment and management of risks, the communication and acceptance of policies and the distribution and tracking of actions.

To find out how Insight4GRC can help you better manage your organisational risks contact matthew.humphrey@rsmuk.com.

FURTHER INFORMATION

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