# HE Update
# Internal Audit – what might 'good' look like?
April 2020

## Background

We know that there is sometimes disquiet in higher education about internal audit quality. Whether it's a good or bad thing for executives to be content with internal audit is debatable. Sometimes good internal audit causes a degree of discomfort for executives and audit committees. Sometimes too, though, that expectation of discomfort can morph into an unhealthy acceptance of poor internal audit. Low expectations (arguably – and as covered in more detail in [another of our recent briefing notes](#) linked to pressure on audit fees associated with more inexperienced auditors on ever tighter time budgets being deployed) seem to have become normal in parts of the higher education sector. This is never a good thing, so in this paper we explore what 'good' internal audit should look like.
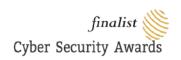
## Who is the customer?

Two millennia ago, St. Matthew observed the difficulties that flow from serving two masters. Internal auditors spend most of their time with executives, but ultimately their responsibilities are to the non-executives on the audit committee. When auditors must choose between the two groups, non-executives, and audit committee members in particular, must always command ultimate loyalty. This is beyond question. So, unlike just about every other service provider, there is a boundary to the 'customer service' that executives can expect from their internal auditors.

That said, executives and non-executives alike are always entitled to expect that internal auditors deliver a service that is highly relevant to the organisation, behave professionally, are responsive, and engage well. The nature of an internal auditor's role sometimes means that they must be guided by *their* perception of what is in the organisation's best interest, which may not always align with what executives *want*. Outstanding interpersonal skills are vital in order to successfully navigate the potentially delicate situations which can arise at every stage of internal audit work: from reaching agreement about what should, or should not, be audited, through to the presentation of observations and conclusions in audit reports.

Taking this further, we would argue that, whilst it might be tempting for vice-chancellors and their executive colleagues to avoid any unnecessary perturbations, they really ought to look askance at internal audit colleagues who seem perpetually acquiescent. Auditors worth their salt should bring at least occasional constructive tension to their discussions with executives: never to question strategic decisions of course, but certainly to explore and test whether potential risks and pitfalls, as well as alternative options, have been probed and evaluated appropriately.

## Personal Skills and Attitudes

Communication tops the list. The word 'audit' has its roots in the Latin 'to hear', so not surprisingly listening skills remain crucial to internal auditors – within a portfolio of wider observational skills. When planning and delivering audits, strong social skills help auditors to build client engagement, promote open discussion of risks and risk management strategies and explore alternative approaches. All of this helps to achieve more comprehensive and in-depth internal audits. Clear, credible and succinct reports, written and presented with tact and diplomacy and informed by political antennae are the most tangible evidence of good internal audit skills.

Alongside communication skills, a natural curiosity to find out more, not take things at face value and to get to the root cause of situations (in order to avoid superficial suggestions) is essential. Audits should not simply be a series of conversations. Conversations need to be supported by evidence: using an appropriate mix of documented material; observation; and testing. Viewpoints and assertions need to be triangulated and proven.

Analytical skills to sensibly assess and evaluate information gathered are also vital. Dependent on the audit, sometimes it is important to be able to see the bigger picture and place audits and audit observations into the wider organisational and strategic contexts. By contrast, other audits also demand strong attention to detail.

Few people, if any, will be strong performers in all of these areas, but every auditor should make a distinct contribution to this skillset and the team as a whole must collectively possess, and deploy, the entire skillset on every audit.
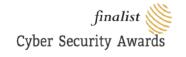
Turning to attitude. Much emphasis is placed on internal auditors' independence. We prefer 'objectivity'. Overemphasis on independence can lead to internal auditors being out of the loop. To be effective and relevant, we suggest that internal auditors need to work closely with their clients, but ensure they retain complete objectivity.

## Technical Skills and Experience

Without the right personal skills and attitudes, technical skills will be wasted. However, assuming good personal skills, what complementary skills does an audit team need?

- A deep understanding of each of the main aspects of their clients' business that allows them to audit with credibility. In a higher education setting that translates into a deep and current understanding of:
  - academic quality (programme design and validation, ongoing review including reflection of the student voice; engagement with sector teaching, research and knowledge exchange metrics);
  - teaching (including delivery, assessment and student support);
  - research (strategy, funding and management of outputs); scholarly activities;
  - data – both the sector's data returns and how data is used for the benefit of students and staff;

Uniac 2020 ©

finalist
Cyber Security Awards

- governance – effective risk management, oversight of adherence to the OfS registration conditions and other key regulatory considerations such as CMA, GDPR and UKVI;

- the availability and effective deployment of IT and the management of associated risks;

- planning, management and usage of buildings;

- student recruitment;

- the attraction, engagement and retention of staff; and

- social and ethical matters such as diversity and equality and the sector's response to environmental and climate risks.

- To deliver better quality assurance and use auditors' time most effectively, the ability to process, interrogate and interpret significant amounts of quantitative data is essential. The days of auditors testing a sample of 30 transactions are largely disappearing, and there is more emphasis on whole population coverage – and where sampling is required this is increasingly biased towards 'unusual' items that are highlighted from a whole population review.

As with the personal skills needed, this range of technical skills must be available across the team. Smaller teams may need to consider co-sourcing or use of contractors to supplement the core skills available to them.

## Future Potential

There are some areas where internal audit could, in our opinion, offer more. Here are our views.

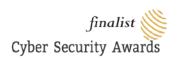*Workshops, Surveys and innovative approaches to audit delivery*

Auditing has an image of being a fairly solitary pursuit. Auditors pore over data, review documents, ruminate and have the occasional one to one interview. To the extent that this is true, it undersells what audits can do, and how efficiently audits can be delivered. Increasingly, we use workshops with participants from a range of departments and functions. Getting several people with different perspectives involved in a single conversation helps to build a whole-organisation view of processes and to break down departmental barriers. In large organisations of any type, the reason for requests that originate in one department may not be understood by those whose cooperation is essential. For example, when auditing data returns, we often find that problems originate because frontline staff who initially collect data sometimes don't understand how it is going to be used, and so don't appreciate the significance of data fields that are left blank or contain errors.

Workshops where end users, front line staff and intermediate handlers can collectively get an end to end process perspective are an effective, creative and often enjoyable way of developing improvements and efficiencies, as well as ensuring that all staff involved can explore and understand *why* particular process steps exist. Audit recommendations that originate from workshops are more likely than traditional audit recommendations to enjoy staff buy-in and commitment.

In addition to the traditional internal audit skillset, workshop delivery requires auditors to have strong facilitation abilities.

Beyond workshops, good auditors should deploy (when it will deliver efficiency or effectiveness improvements) other non-traditional approaches to audit delivery such as surveys and data downloads.

*Continuous Monitoring or Auditing*

We no longer advocate cyclical audits of core systems. As an alternative, 'continuous monitoring' (by executives) or 'continuous auditing' (by independent auditors) refers to a structured system of exception reports which can be designed, implemented and operated by either auditors or line managers.

Continuous monitoring and resolution of reported exceptions by management provides a layer of assurance which can be supplemented by continuous auditing of that management monitoring. Most transactional audits, e.g. of core financial systems or of IT system management, will explore the availability and use of exception reports. Whilst continuous auditing may be rarely, if ever, warranted, auditors should ensure a systemic approach to exploration and evaluation of continuous monitoring regimes within every audit.
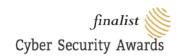
*New Systems and Processes*

Audit involvement with major projects traditionally gravitates towards project management: whether there is a specification, a budget, a timeline and whether these are being adhered to. The Chartered Institute of Internal Auditors is wary of independence being compromised; however, we argue that there is an overwhelming case for auditors to assess (as far as humanly possible) whether new systems or processes are likely to be effective and efficient once implemented. It seems unconscionable to wait until after implementation to offer critical internal audit input. Observations offered during the early stages of projects can invariably be addressed more economically and with less disruption than waiting until after implementation.

There are challenges with this sort of audit. Firstly, it requires a more dynamic approach. Auditors need to act within project timescales and respond quickly once specifications and project documentation become available. Rather than traditional audit reports, with formal management action plans, outputs need to be shorter and more dynamic, with post hoc summary reporting to executive groups and audit committees of issues raised and their resolution. Project managers, focused on deadlines and management of resources, may be wary that internal auditors will slow down project timetables and derail project plans with demands for additional controls. In practice, we have disproved such concerns. Our experience to date has been that system and process designers tend to be prudent and we are far more likely to advocate streamlining of proposed controls.

Returning to the Chartered Institute of Internal Auditors' concerns about independence, internal auditors and clients alike need to understand pragmatically that while an audit of a proposed system design is definitely better than nothing because it allows early adjustments to be made, it is not the same as an audit of a 'live' system and so must be conducted on a 'best endeavours' basis, with the possibility that further observations may arise post-implementation.

The number of days required to offer input to a new system can be barrier when annual programmes and audit costs are under scrutiny; however, this needs to be seen in the context of typical student record systems or finance systems having a fifteen to twenty year life span. Taking a long-term view should support the case for early internal audit involvement in new system projects.

# Get in Touch

We hope that this paper caused you to think about internal audit and assurance. We would like to know what you thought, so please do let us know. We don't claim to have all the answers, but we certainly want to work with the sector to provide effective internal audit. If you are interested, or if we can help, please contact us.
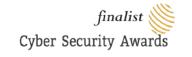
Martin Conway
Senior Audit and Assurance Consultant
tel: 07943 301658
mconway@uniac.co.uk
www.uniac.co.uk

Sean Ryan
Director
tel: 07796 180186
sryan@uniac.co.uk
www.uniac.co.uk

Richard Young
Director
tel: 07795 122252
ryoung@uniac.co.uk
www.uniac.co.uk

finalist
Cyber Security Awards

# Uniac's own position on the themes raised in this paper

Here is our 'self-assessment' of our performance on the key issues:

**Personal Skills**

Uniac recruits and develops its staff using competences similar to those discussed in this paper. Different people have different strengths, so we aim to bring our 'collective best' to every audit.

**Technical Skills**

Our team has higher-education specific sector skills and experience. For each of the themes listed in this paper, we have one or more specialists with the ability to deliver credible assurance and value-adding recommendations that reflect current and emergent best practices in the sector tailored to the circumstances of each of our clients.

**Objectivity**

We work closely with each of our clients to ensure our service meets their needs and reflects the circumstances precisely. We are hugely mindful, though, that higher education is a relatively small and closely-knit sector so we regard our reputation for objectivity as our greatest asset.

**Audits of New Systems**

Almost always, where clients go next is vastly more important than where they have been, so evaluating how systems and processes will work in future is vastly more important than an assessment of how they have worked in the past. We are (as far as we can tell) unique in our ability to engage with new system and process developments. It requires quite a different skillset and methodology from normal audits, and we think we have captured it well.

Uniac 2020 ©

*finalist*
Cyber Security Awards