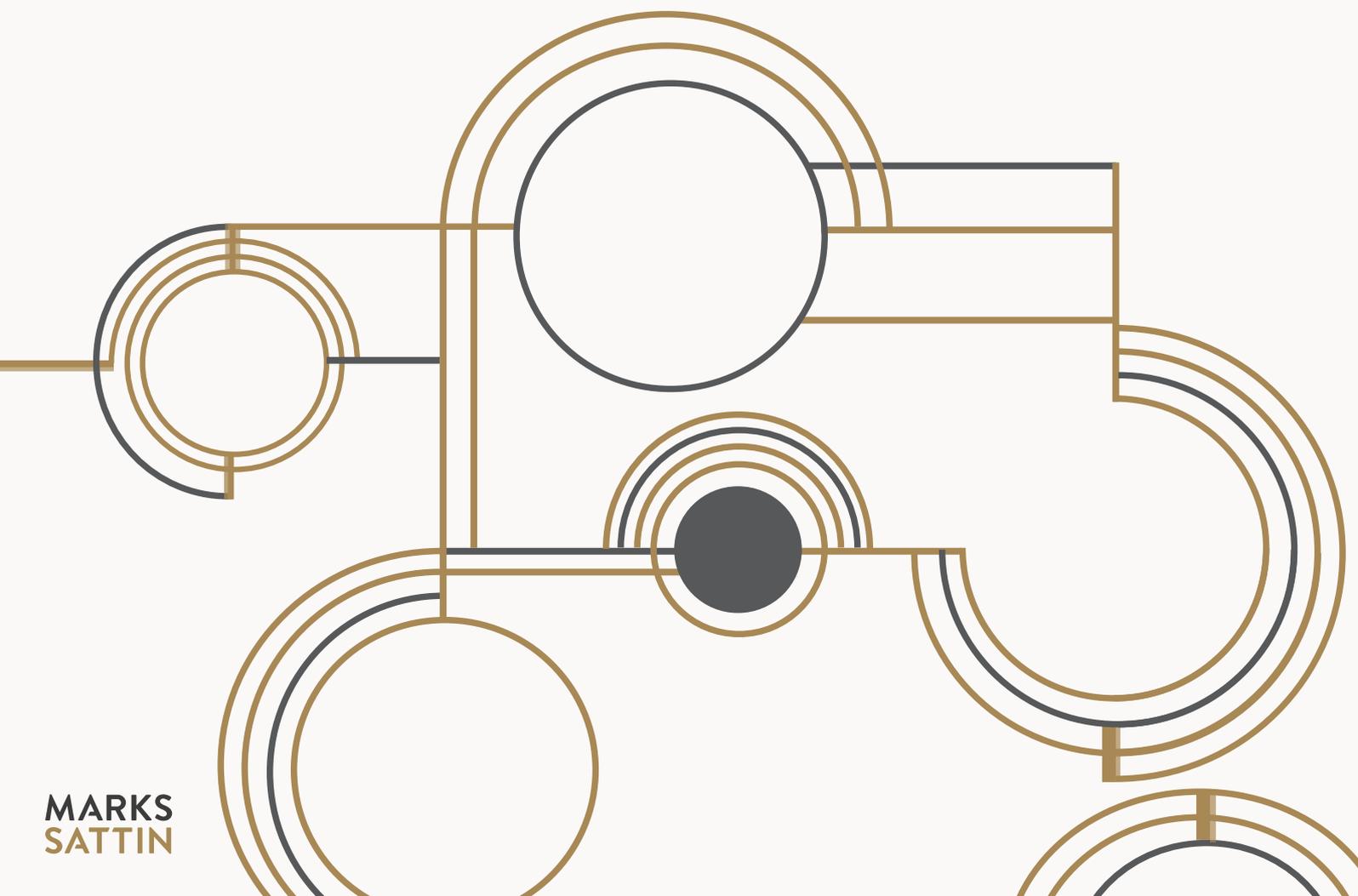


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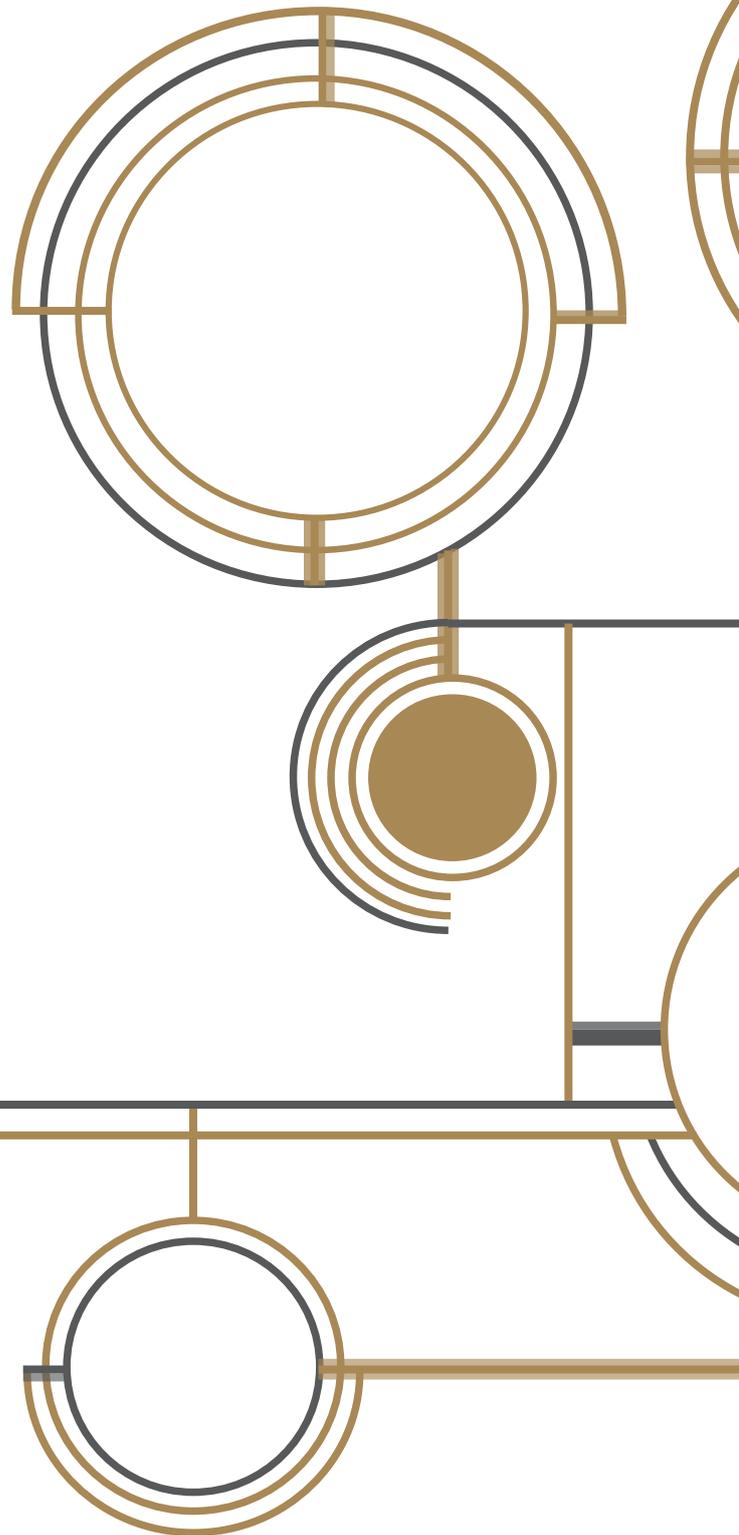


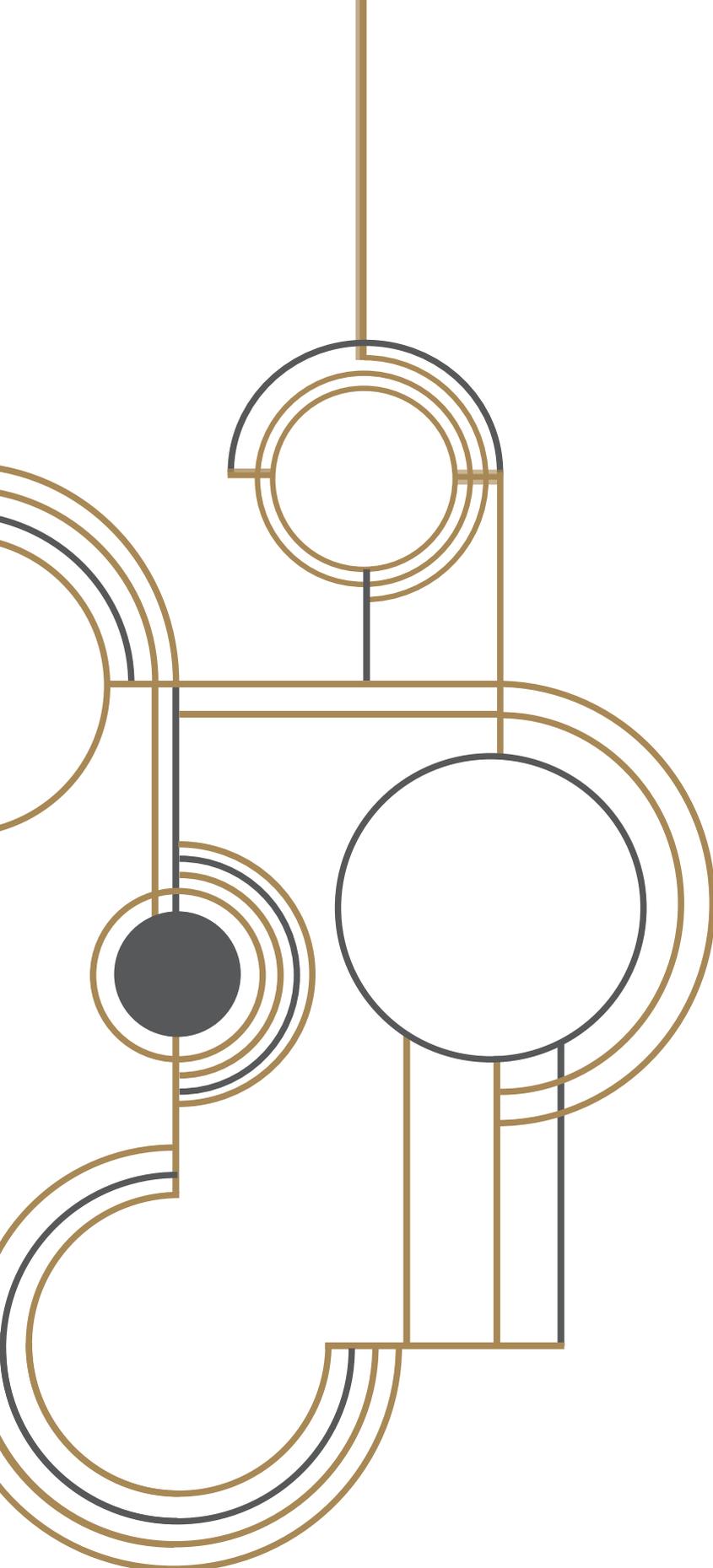
Carving out careers in internal audit



Introduction

On 22nd October 2015, specialist financial and accountancy recruiter Marks Sattin hosted an internal audit roundtable at the Hilton Hotel in Leeds. Senior heads from the likes of EY, Leeds, Yorkshire and Skipton Building Societies, AVIVA and LSL Property Services gathered to discuss topical issues relating to the internal audit function, particularly resourcing models and planning. The event provided an opportunity for Marks Sattin's clients to discuss key challenges they are facing in a constantly changing regulatory environment, at a time when the financial services recruitment market is becoming more active.





Be my guest

The greatest challenge identified by the panellists was recruiting and retaining suitable talent to the internal audit function. One key strategy touched upon is the use of guest auditors – allowing high-performing employees in other parts of the business to gain internal audit experience for a set period of time, bringing with them the benefit of their particular skill-set.

A programme like this is beneficial for teaching the wider business about internal audit and the function's value. Graduate schemes and high-flier programmes were also highlighted as key ways to enhance awareness of the internal audit function to the wider business through rotations into the function.

One panellist pertinently questioned whether guest auditors are truly "worth their salt". After all, does any business function truly want to give up their A-players to another area of the business for an extended period of time? Even more fundamental perhaps is whether a guest auditor is ever fully independent of their "home" department and whether they can objectively review and critique their department's inner workings.

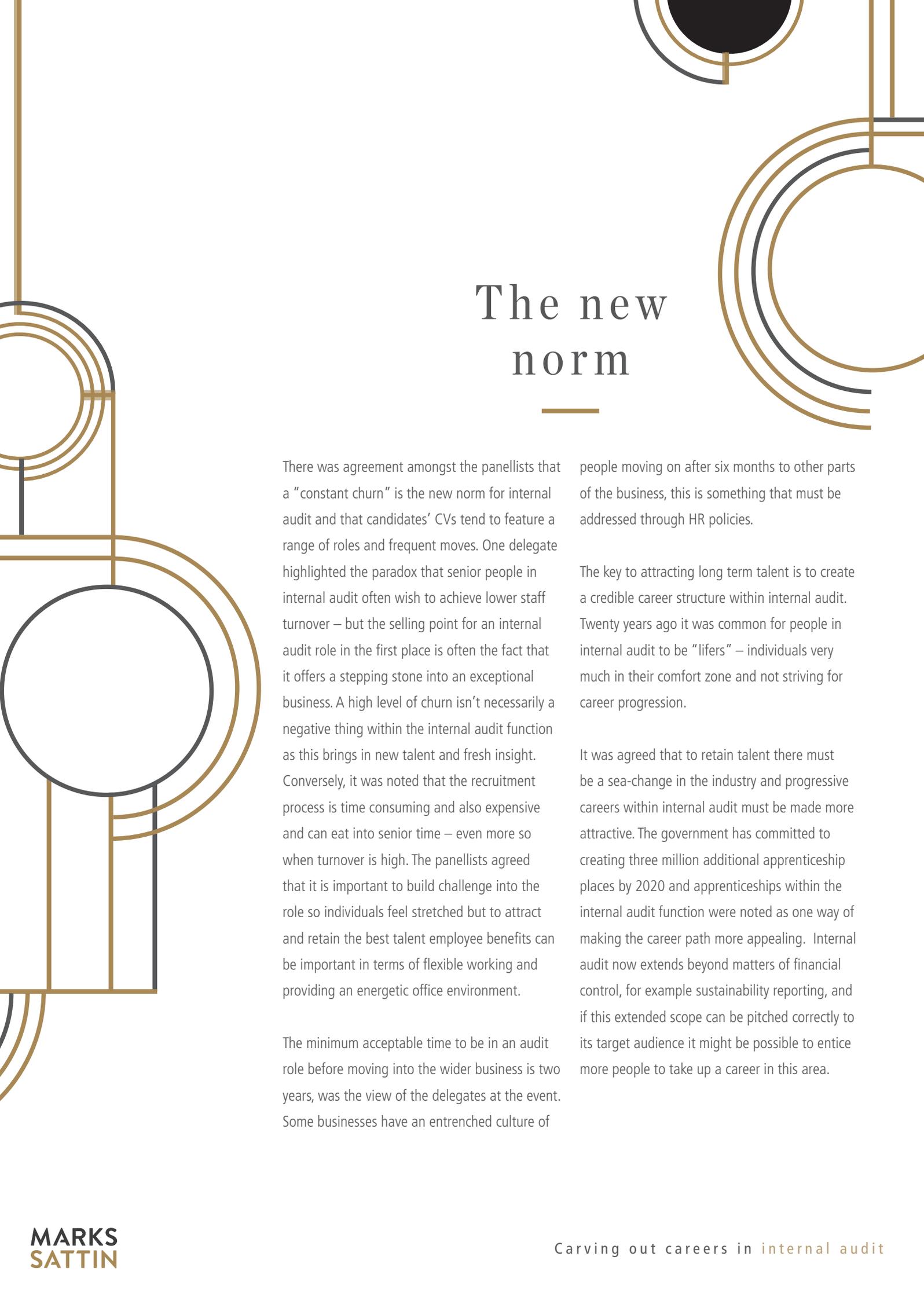
Do it yourself

Recruiting top graduate talent is becoming harder now that companies are hiring at pre-recession levels. Graduates are becoming more selective about their first job. According to one report more than 1,000 positions with top graduate recruiters were left vacant in 2015, in part due to top graduates turning down places at the last minute .

The alternative to looking internally is to secure a pipeline of strong talent into the business and offer suitable benefits and development prospects to retain these individuals. It was noted that a key issue is that graduates tend to view internal audit as a stepping stone into the wider business and therefore might only spend a short

time in internal audit. One panellist identified clear career trajectory as a fundamental issue and the lack of clarity on this within internal audit can be a deterrent – people do not want to be perceived as a junior auditor forever.

Several factors were suggested to make roles in internal audit more attractive which included training and personal development which challenge the employee. Helping employees develop a specialism which provides them with a sense of ownership, without pigeon-holing them into a particular role, was also highlighted as important, as was ensuring the role is varied.



The new norm

There was agreement amongst the panellists that a “constant churn” is the new norm for internal audit and that candidates’ CVs tend to feature a range of roles and frequent moves. One delegate highlighted the paradox that senior people in internal audit often wish to achieve lower staff turnover – but the selling point for an internal audit role in the first place is often the fact that it offers a stepping stone into an exceptional business. A high level of churn isn’t necessarily a negative thing within the internal audit function as this brings in new talent and fresh insight. Conversely, it was noted that the recruitment process is time consuming and also expensive and can eat into senior time – even more so when turnover is high. The panellists agreed that it is important to build challenge into the role so individuals feel stretched but to attract and retain the best talent employee benefits can be important in terms of flexible working and providing an energetic office environment.

The minimum acceptable time to be in an audit role before moving into the wider business is two years, was the view of the delegates at the event. Some businesses have an entrenched culture of

people moving on after six months to other parts of the business, this is something that must be addressed through HR policies.

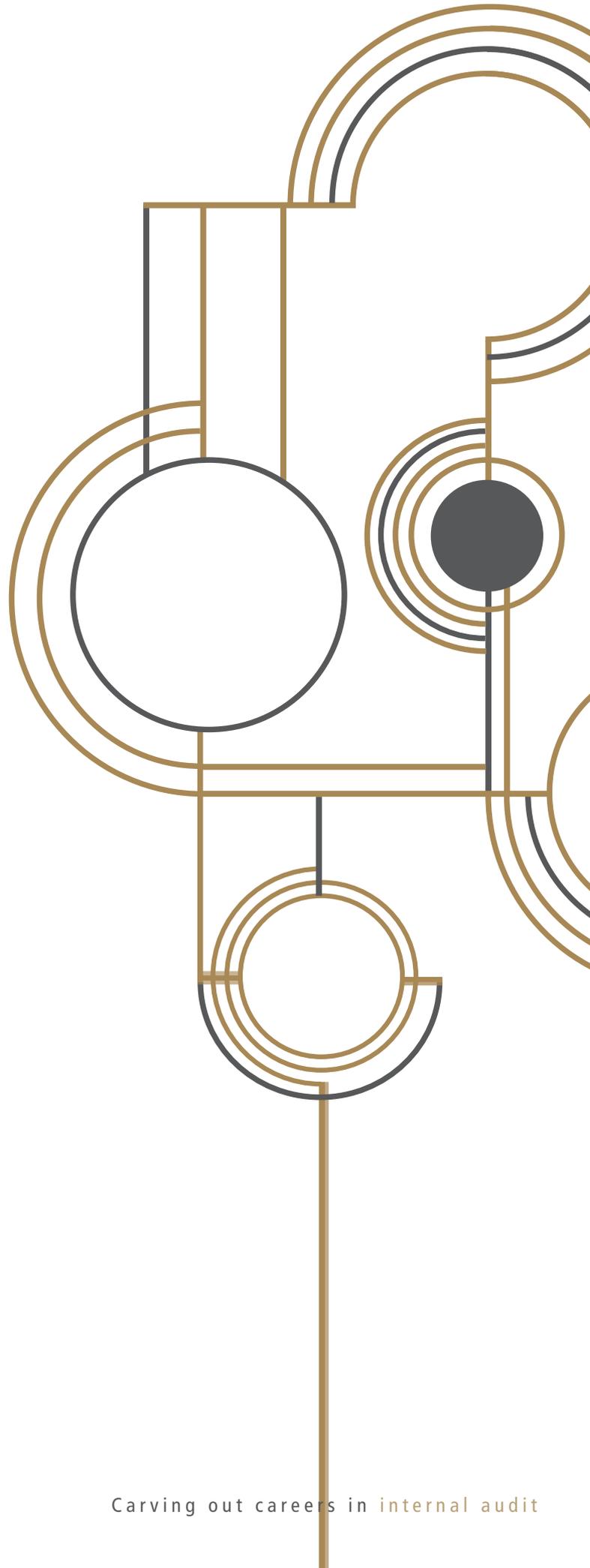
The key to attracting long term talent is to create a credible career structure within internal audit. Twenty years ago it was common for people in internal audit to be “lifers” – individuals very much in their comfort zone and not striving for career progression.

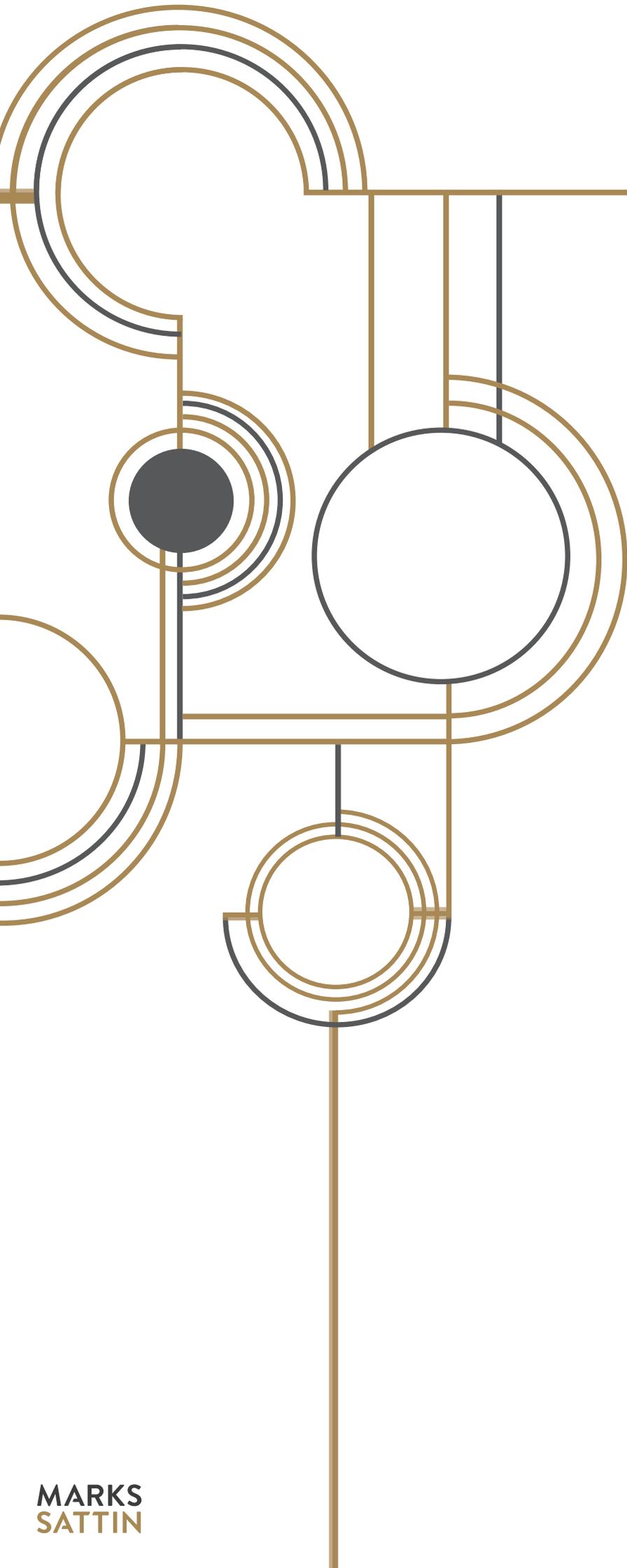
It was agreed that to retain talent there must be a sea-change in the industry and progressive careers within internal audit must be made more attractive. The government has committed to creating three million additional apprenticeship places by 2020 and apprenticeships within the internal audit function were noted as one way of making the career path more appealing. Internal audit now extends beyond matters of financial control, for example sustainability reporting, and if this extended scope can be pitched correctly to its target audience it might be possible to entice more people to take up a career in this area.

Recruiting right

The discussion also touched upon the best ways to recruit strong candidates in the first-place. Face-to-face competency based interviews were highlighted as an effective way to achieve this. However, there is a risk candidates can hide behind jargon without having the in depth knowledge that is necessary for the role. One way around this is to give candidates a task 10 days in advance of an interview, which will require them to research an area in significant depth and present their findings. This is an intensive exercise that gets to the core of a candidate's knowledge and reveals more than an on-the-spot exercise.

Competency based tasks work well to a degree but it was also noted that a lot can be said for a "gut feel". One of the delegates, who previously worked at a Big Four accountancy firm, said that the two key questions to ask yourself before employing someone are: 1) whether you would feel comfortable putting them in front of a client and 2) whether you can see them fitting in as part of your team.





Business partnering

Another reason people might be deterred from internal audit is that it can put employees into an uncomfortable position with their business because they are challenging the status quo – one delegate commented that internal audit can be a thankless job when it is done well.

This is where true business partnering becomes important, by working closely with business leaders and line managers, internal audit teams needn't be battling the business but instead providing useful insights that can lead to real improvements.



The annual plan

Annual audit planning is the most difficult part of the job for the internal auditor and deciding what risks make it into the plan can be a painstaking business.

Crucially, internal audit teams must have effective processes to identify all auditable entities and there will be a range of factors to consider in this regard including, but not limited to, major product lines, departments, functions and geographies. One delegate discussed how audits at his business had previously taken place on a functional basis, which was identified as of limited effectiveness in some cases as it tends to allow overarching issues to “slip between the gaps”. The way in which auditable entities are identified depends on the overall nature of the business. Where an organisation thinks functionally it can be difficult to implement a change in focus to a process based methodology for identifying risk.

One delegate described how internal audit on a cyclical basis for him involves a focus on the processes and area but the precise scope within this changes. The cyclical nature comes down to multiple business arms and elements which need to be covered a number of times. An alternative approach is to focus on the top risks across the business on a consistent basis.

One attendee described how she has developed a new audit universe following the appointment of a new internal audit team. Previously the same risks were focused on every year in a regimented fashion. However, under the new regime the

risk universe matures after a period of time and is reviewed for effectiveness. The risk assessment focuses on process, function and regulation – so an entity is dissected every possible way. Through the use of this process, in theory an audit could be linked to three entities at one time – whereas previously you could only match one organisation to one audit.

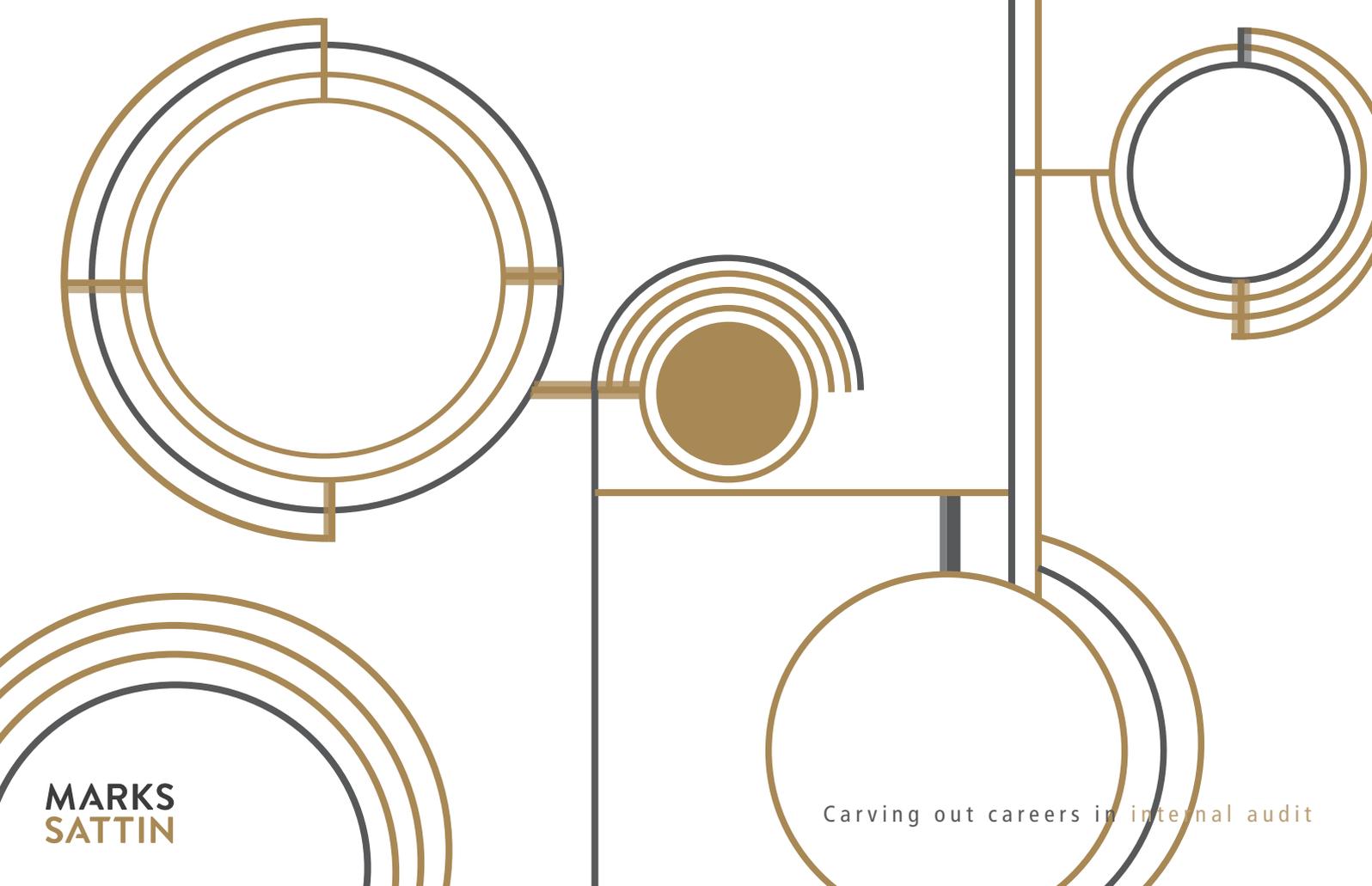
Where a business becomes more fragmented and project focused it can be harder to identify the risk universe as these individual risks exist at a point in time. Where business areas are constantly evolving with different strategies it enhances risk – especially where different elements of the business are involved. This can create a significant stretch on resource within internal audit.

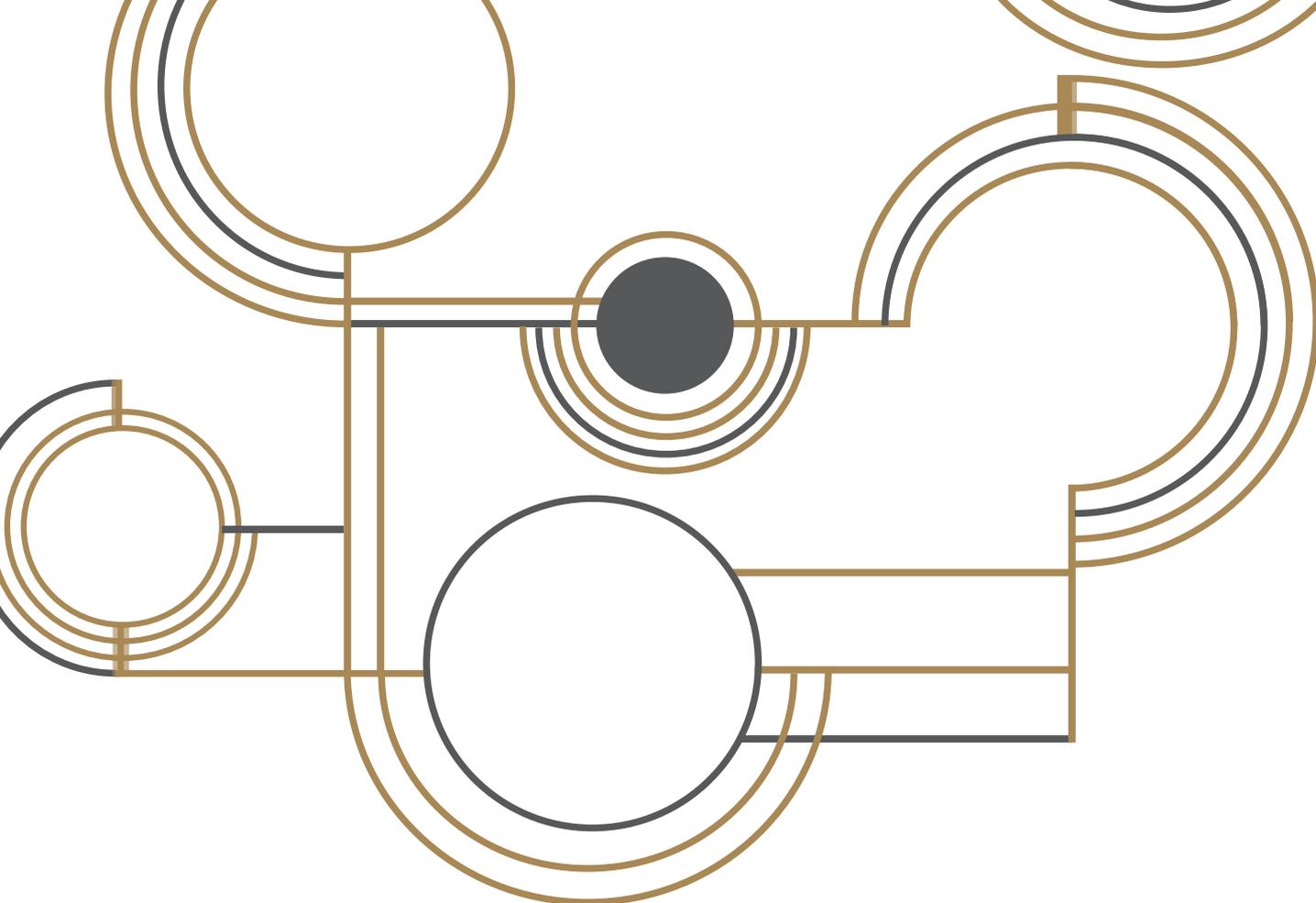
It was agreed that it is important to meet with the senior team and the chief executive to discuss the shape of the audit plan and whether it is suitable for the business. The panel also agreed that it is crucial at an earlier stage to engage with key business stakeholders and that this influence is fed into the internal audit process – a key aspect of business partnering. In some businesses the risk universe and three lines of defence are seen by the Group Risk Committee, which is seen by many non-executive directors, who are on the Audit Committee too. However, it is important that an assessment of risks is informed by executive management and not reliant on it.

Improving accountability

It was clear from the panel that computer aided audit tools (or CAATS) are in wide use and provide an extra layer of credibility, in particular for areas which involve a lot of data. CAATS can be used to identify exceptions in data and can give a higher level of comfort or assurance to a business due to the larger sample analysed. CAATS are particularly effective when it comes

to analysing the validity of exception reporting. Whilst there is often significant resource involved in setting something like this up in the first place use of CAATS can save considerable time and resource in the long term.





Culture audit

The concept of cultural audit has raised the profile of the internal audit function. Culture in the context of internal audit focuses on the underlying drivers of this. For example, it looks at whether HR policy is delivering the right cultural outcomes in the way it seek to recruit new talent to the business. This might look, for example, at the way job briefs are written and whether this is being done in a way that attracts the right talent.

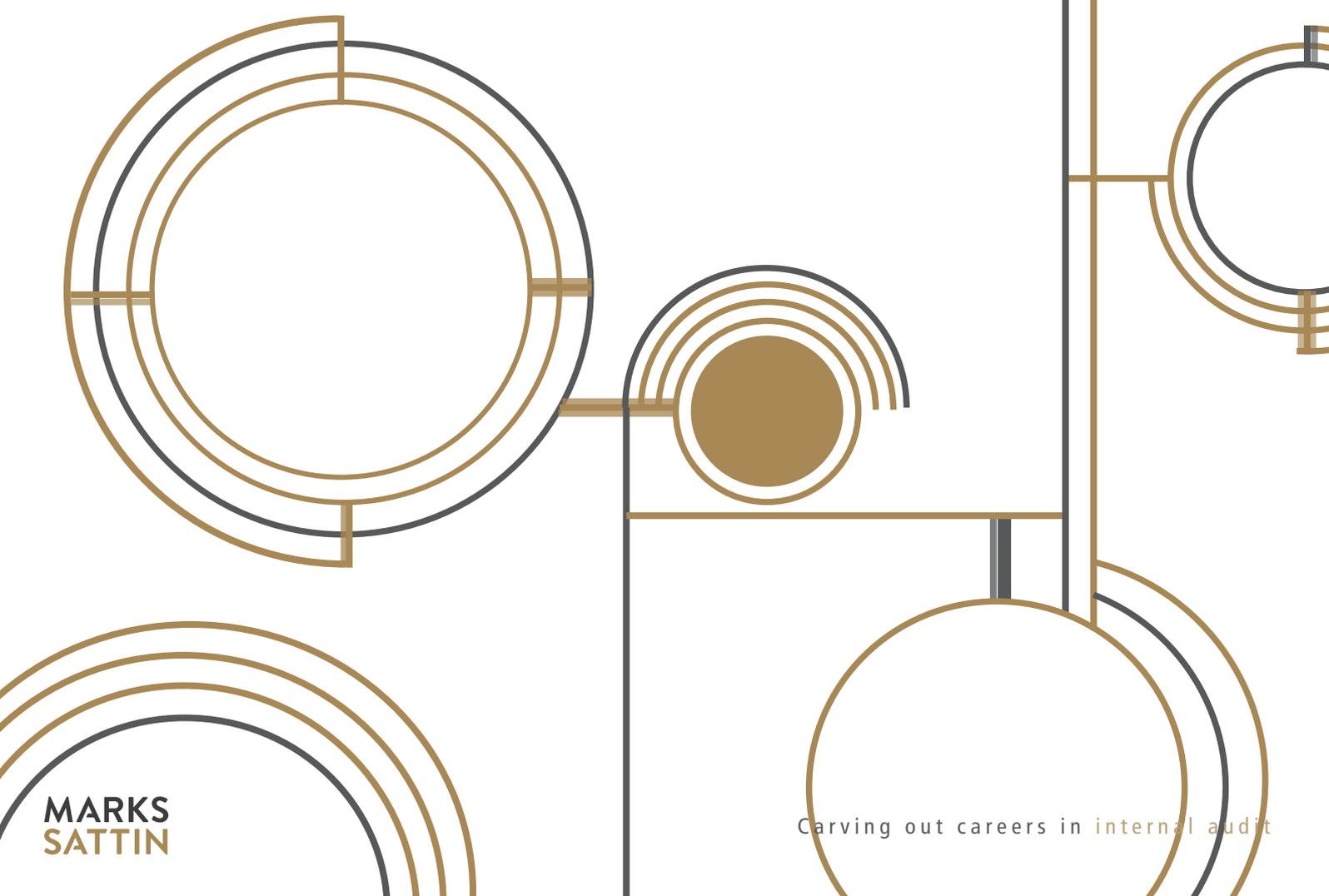
Underpinning any cultural audit is the fundamental question of what the culture should

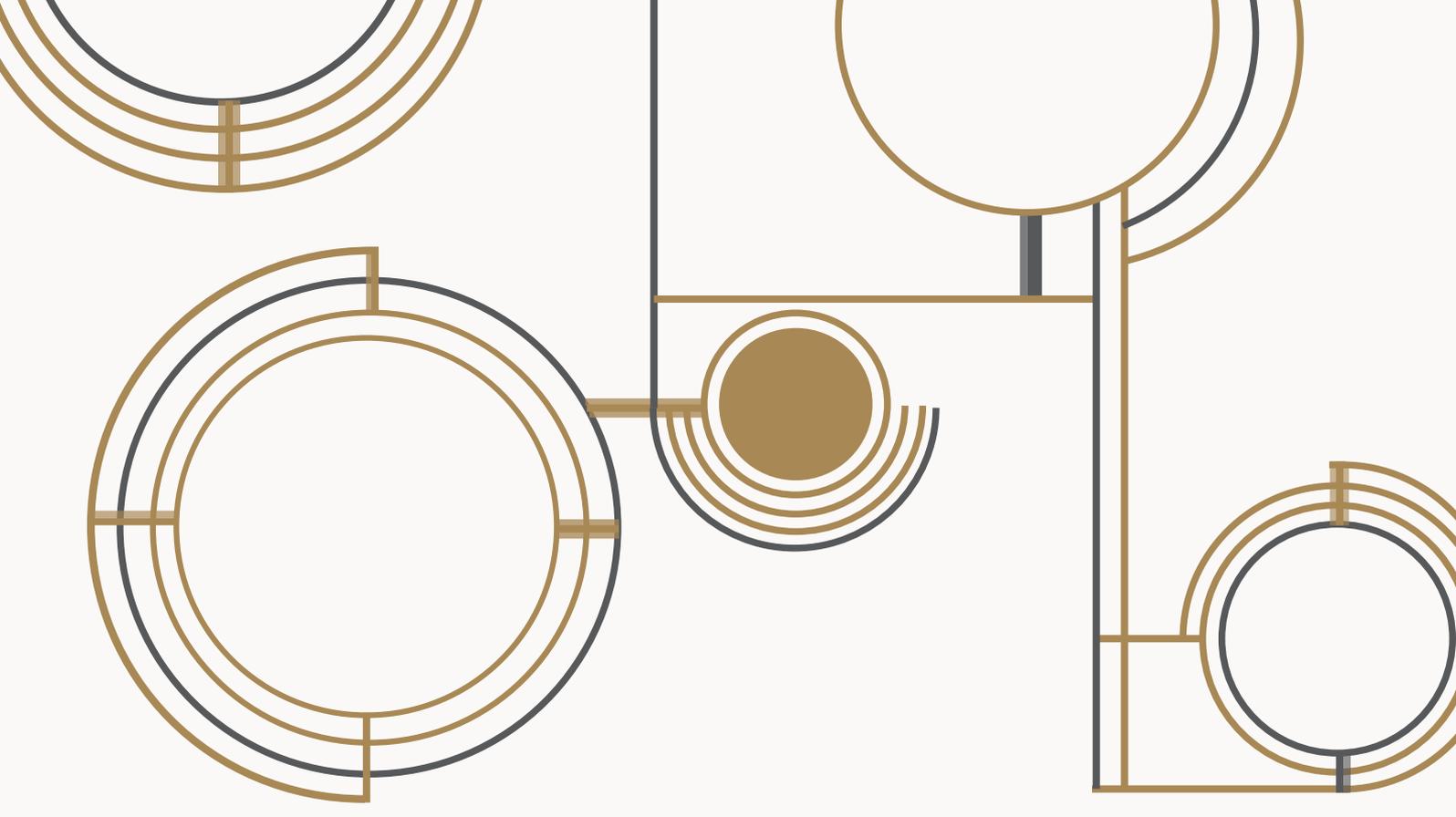
actually be, which is driven by the output of decisions. Clarity of vision is important when establishing what the current culture is to be measured against. It is then possible to assess whether the current behaviours are actually creating that vision. For example, if a bank wants its culture to be centred on exceptional customer service, an environment in which branch employees are driven by sales targets is not ideal for promoting this.

Conclusion

The discussion demonstrated that now the internal audit function is perceived as adding value across key business areas, there is a greater need to recruit and retain strong talent into the function. Many candidates view internal audit as a stepping stone into other business areas, but it is also important to develop internal audit career paths so that excellent people are retained and developed. Whilst an “element of churn” is part of the new norm within internal audit, ultimately a constant recruitment process is incredibly time-consuming. Internal audit now extends beyond the financial aspects of a company’s workings and also examines culture, which has created more interest in careers within the function.

There are significant challenges ahead for the internal audit function, particularly in terms of attracting strong people to internal audit roles. It is clear that the function has undergone a transformation and is now focused on business partnering and driving real value. Internal audit provides an opportunity to gain deep insight into business, a message which should attract more career internal auditors.





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