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Reducing Assurance Fatigue

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Abstract

Increasing and stringent regulatory requirements coupled with stakeholders' expectations of a solid risk and control effort have led to multiple assurance functions in an organization which ultimately results in assurance fatigue. If not addressed, this phenomenon can diminish the true value that internal audit brings to an organization.

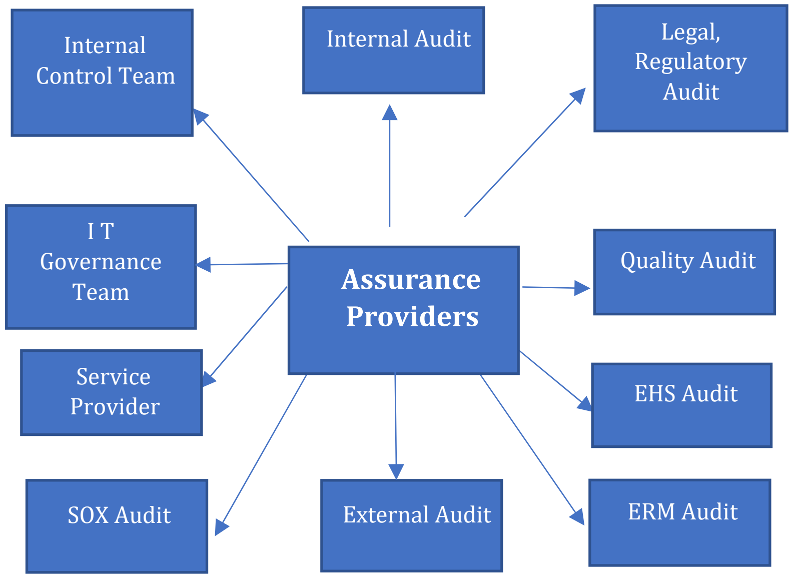
Companies are quickly realizing that there is an urgent need for a streamlined effort to manage these different assurance providers and the work they do if the true value of each is to be realized. Even though, there is a responsibility for internal audit to streamline its own work with the organization, it cannot solely address and solve assurance fatigue. The solution is to understand and apply some well-researched tips in addressing this problem.

General

Technological advancements, increasing regulatory oversight, complex business operations, and continually emerging risks are today's business reality. The board and management must be assured that such risks are identified and operations are managed to address these risks. There is a range of players engaged to provide different levels of assurance to several stakeholders including the board and management. However, these different assurance providers, with each operating as a silo, cause management to be consumed with multiple audit requests and overwhelmed with audit reports, all of which combine to lead to assurance fatigue.

Different assurance providers tend to ask the same questions and looking at the same risks, controls, and governance processes. One head of a business unit remarked after two separate audits that consumed much of his time that "It's like answering a set of questions for an internal auditor while the external auditor waits outside my office with the same set of questions followed by the internal control analyst looking at controls over financial reporting. All I do these days is answer the same questions over and over and over again." Moreover, management has to deal with multiple reports, some with repeat findings, and others with contradictory conclusions from the different assurance providers. As a result, assurance fatigue becomes more compounded.

A look at the several assurance providers in the diagram below only reinforces this predicament:



Given the range of assurance providers across the enterprise performing multiple audits requires an optimal framework to ensure that the different audits are carried out seamlessly in a well-coordinated effort with little or no disruption to business operations. To streamline each audit type in order to add value to the organization requires considering ten key factors.

1. Communicate the nature and purpose of each audit

Articulating and communicating the nature and purpose of each type of audit associated with the assurance provider is a good start that will make matters clear and avoid any ambiguity. For example, the internal control team's mandate of reviewing controls over financial reporting should be communicated to heads of business units.

2. Management Buy-In

There must be top management buy-in and support for the success of the combined assurance providers. As management sets the tone and has governance, risk, and control oversight throughout the organization, it is their influence over process owners that will underlie the success of each type of assurance.

3. Establish a common language

A common language or taxonomy where common terminology is defined and explained with examples should be developed and used by all providers. For example, rating identified control issues and providing an overall opinion of the control environment should use the same terms that are shared and understood by all assurance providers. This will allow for greater understanding among the providers and across all functions including management staff, the board, and respective committees in the organization.

4. Assign a High-level Champion

The Internal Audit function can play an integral role by having an appropriately qualified person within the group act as a high-level champion and single point of contact between each assurance provider and the process owners. This key gate-keeping role will map the risks of those activities that are going to be covered, scope the audit, schedule and prioritize all audits based on risks, deadlines, and availability of personnel and records. In this way, everyone will be on the same page with a clear understanding of each other's role and responsibility thus minimizing any potential disruption or duplication. Such a champion will be the focal point in ensuring success for combined or integrated assurance efforts and critical to ensuring all assurance providers' contractual terms are fulfilled and that there is consistency in dealing with contentious issues.

5. Collaborate and Coordinate

Collaborate and coordinate with other service providers to avoid or limit duplication and overlap. Testing the same risks and controls by multiple assurance providers is inefficient and only creates fatigue for process owners. Assurance providers must be cognizant of such assurance burdens and consider strategies to minimize or avoid duplication of efforts and overlap between oversight bodies. This requires sharing audit schedules, working papers, and audit plans in a well-coordinated way while being aware of privacy issues. While collaboration promotes effective audit processes, they can also pose a threat to privacy unless guidelines are put in place and followed. If you share client / staff data, such as health records or payroll, between departments during an audit, make sure personal information, like social insurance numbers or home addresses, are deleted.

6. Comply with the IIA Standard

Complying with authoritative standards will strengthen internal audit's hand. IIA Standard 2050 states that: "The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts." Some audits can even be done jointly, for example, inventory counts by both the internal audit and external audit. Effective coordination decreases audit costs and enhances the efficiency of the audit.

7. Time It Right

Determine the order in which the audits need to occur. Look at your organization's auditable universe, when the last audits were and where are there intercepts. Map the Audit Universe, and the Risk Universe with the different audits of each assurance provider. Then tie them together in an audit plan shared by the respective audit team.

For example, if you have a company hosting your cloud-based computing, you will want a service auditor report from them in time for your external auditor's review, as well as for customers who want information about your IT controls and have an audit clause in their contract.

8. Establish a shared platform

Consider establishing a single platform where information can be gathered from multiple sources and deposited. Multiple assurance functions can leverage an integrated platform to share audit results, review action plans, and track remediation efforts.

9. One Report to Rule Them All

Track all your audit and compliance findings to implement them efficiently across your enterprise by reporting on results in a consolidated manner. The entire organization needs to know what risks were uncovered and improvements made to make audits worthwhile.

Say your business has offices across multiple geographic jurisdictions and a report by the internal auditor for the one region highlights a list of things that need to be improved. An external auditor might be tracking the overall organization, including the region in question. Without proper oversight, your business might be working at cross- purposes; fixing an issue in one region which could be applied to the company as a whole.

10. Tear Down Those Silos

Avoid information hoarding, both good and bad. If an error is found during an audit in a department, region or business unit, it needs to be known and shared in an appropriate way, so it can be fixed and avoided in other places. To enable this, businesses might have to work on finding and overcoming communication barriers to have a more open culture.

And if your department gets a request for an audit, make sure the request flows up through the organization to the person coordinating all external party activities. For example, if you get a notice from the provincial health and safety agency because of a possible health and safety infraction, the coordinator might find existing corporate health and safety information that can be used to correct the issue instead of building new standards.

Conclusion

Although each assurance provider has its own mandate, they are all closely aligned and their collective efforts provide management and the board an integrated assurance that risks have been identified and operations are managed within acceptable tolerance levels.

Recommended Reading

1. *Clemens, D. "Optimized Integrated Assurance," Internal Auditor, October 2014.*
2. *Guillot, C. "Avoiding Burnout," Internal Auditor, April 2013.*
3. *Huibers, Sam C. 2015. Combined Assurance: One Language, One Voice, One View. Lake Mary: Institute of Internal Auditors' CBOK.*
4. *Institute of Internal Auditors. 2017. International Professional Practices Framework: Implementation Guide 2050. Lake Mary: IIA. (IPPF) – IIA, 2017*
5. *Institute of Internal Auditors. 2011. Reliance By Internal Audit on Other Assurance Providers. Lake Mary: Institute of Internal Auditors' Practice Guide.*
6. *Wood, David A. 2004. Increasing Value Through Internal and External Coordination. Lake Mary: Institute of Internal Auditors Research Foundation.*
7. *Institute of Internal Auditors. 2012. Coordinating Risk Management and Assurances. Lake Mary: Institute of Internal Auditors' Practice Guide.*

About the Author

Lal Balkaran, MBA, FCPA, FCGA, FCMA, CGMA, CIA is an award-winning Toronto-based independent internal audit consultant with more than thirty years experience in a range of industries including the Big Four. He has authored several reference books on business and over fifty articles published widely across the globe including a dozen times in the Internal Auditor magazine. Lal has also done several presentations, seminars, webinars, and workshops, at regional, national, and international conferences. Mr. Balkaran has been a long- time member of the Institute of Internal Auditors (IIA) and was twice elected President of the IIA-Toronto where he is now an honourary member.

He currently sits on the Internal Auditor magazine and EDPACS Editorial Advisory Boards as well as on the IIA Canada's Thought Leadership Working Group. A former long-term member of the Committee of

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