

LEADERS, TEAMS, AND THE STRATEGIC INTERNAL AUDIT PLAN

By

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The world has borne witness to many great leaders. This includes individuals such as Alexander the Great, Caesar, Napoleon, Winston Churchill, JFK, Indira Gandhi and Margaret Thatcher to name but a few. Leaders have many abilities such as the ability to inspire others and the generation of trust. They also portray the image that they are balanced. The individuals in the example above all had some sort of aura surrounding them. Key ingredients to any successful leader are willing followers and the ability to articulate a vision.

Successful leaders usually have effective teams in some shape or form. Teams are composed of individuals with various skills sets and people who have to sometimes set aside their egos to achieve a set goal. It is believed by many individuals that a leader is only as good as his/her team because if the team is good, this reflects on the leader and he/she takes the credit but if the team is bad, the leader will take all the flack.

Currently in internal audit today, the risk register is being used to drive the Strategic Internal Audit Plan. The case study detailed below illustrates how such a plan can be created by an assessment of the organization, the leader and the team.

Case Study

The details in this case study are purely fictitious.

Backwater Ltd is a small regional consultancy specializing in the delivery of solutions to clients in the private and public sectors. It is composed of a small team of 4-5 individuals. It has been in existence for 5 years and has only recently managed to break even. It is a subsidiary of another company. The directors of the holding company seem to be unhappy that the Backwater Ltd is not making as much profit as they envisaged when they first set it up so they decide to sell it to a similar service provider Traditional Ltd (who are a bigger and well known name in the field). The deal goes through very quickly with some of the employees being kept in the dark until the last moment.

At a meeting after the buyout, the Managing Director of Traditional Ltd meets the team of Backwater Ltd for the first time. The Managing Director sets the stage by making the following comments to his new employees:

- “None of you will make Managing Director, Directors or Managers in Traditional Ltd.”
- “The rest of you will get a pay rise except for you Mr. Keen.”
- “Nothing will change but I want to you to do your work more efficiently and deliver on time.”
- “I do not intend to look at new sources of business, I am happy with what I have.”

After the meeting, Mr. Keen questions his manager (Mr. Laidback) about the way the organization is headed. The only response that he receives is that the manager doesn't care as long as he receives his Audi TT under the company's fleet management plan.

Someone in the organization senses that trouble may be brewing and therefore an independent counselor is brought in. The Team (from Backwater Ltd) is summoned and asked to state their feelings about the Managing Director and the organization in writing. The Managing Director is similarly asked to state his feelings about the team of Backwater Ltd in writing.

Feelings/Issues

The following is what the team had to say about the Managing Director (the leader), the organization (Traditional Ltd) and their manager (Mr. Laidback).

The Managing Director

- Uninspiring
- Singles out staff and is therefore perceived to a bully of some sort
- Politically naive
- Lack of strategic direction i.e. he has no idea where the organization is headed

The Organization

- Flat management structure
- No scope for progression
- Where will the future income come from if current work dries up?

The Manager

- Lazy
- Selfish

The team also thought that there were communication problems between central administration (at Traditional Ltd), their manager, the Managing Director and themselves as a lot of misunderstandings were occurring. As a result of comments passed by the Managing Director at the opening meeting, staff in general felt undervalued and there was poor morale all round. Moreover, the employees did not believe that they would receive the necessary training in the new entity to develop their skills professionally.

The following is what the Managing Director had to say about the team:

The Team

- Poor time management i.e. assignments run over the budget
- Staff undisciplined
- Staff overpaid
- Staff charge too much on their expenses for mileage, stationery etc
- Common sense is not applied correctly, e.g. posting sensitive documents by normal post as opposed to recorded delivery

Mr. Keen

- Too popular with the clients and therefore a general threat

Risks

In this section, all the feelings are translated into risks. These are summarized below:

- Flat organization structure therefore impeding prospect of career progression
- Lack of strategic direction/vision for the organization
- Poor leadership skills
- Negative focus on staff/insecurity of Managing Director
- Laziness traits in managers who are forcing subordinates to work longer hours
- Poor staff morale leading to employees job hunting elsewhere
- High staff turnover and inadequate assessment of staffing requirements
- Staff not wanting to turn up to work
- Poor communication of results
- No training leading to underskilled staff
- Assignment overruns
- Staff paid too much therefore salary structure may not be according to organization needs
- Padding of expense claims
- Reputational risk (caused by losing sensitive documents)
- Risk of work drying up

- Failure to identify markets, customers and products

Audits

In this section the risks are put in a basic risk register and audits are assigned to cover these risks. The risk categories are taken from the Corporate Governance Handbook by Andrew Chambers of Management Audit Ltd (this is published by Butterworths Tolley).

Risk	Audit
1. Strategic Risk	
1.1 Flat organization structure 1.2 Lack of strategic direction/medium to long term strategy 1.3 Poor leadership skills 1.4 Reputational Risk	Organization structure Corporate Planning Corporate Governance Reputation Management/Corporate Brand Development
2. Financial Risks	
2.1 Assignment Overruns 2.2 Risk of work drying up 2.3 Staff overpayment 2.4 Padding of expense claims	Budgetary Control Income and Debtors Payroll (to include a review of overtime claims) Staff Expenses
3. Human Capital Risks	
3.1 Negative focus on staff by Managing Director 3.2 Staff being forced to work longer hours 3.3 Poor staff morale 3.4 Staff not looking to come into work 3.5 Poor communication between departments 3.6 No set program of training 3.7 Staff paid too much	Harassment/Working Conditions/Workplace Conflict Working Time Regulations Recruitment and Retention (including market supplements) Absence monitoring Communications Review Staff training and development Establishment
4. Operational Risks	
4.1 High staff turnover and inadequate assessment of staffing requirements	Succession planning Budgetary Control (this should include a review of the pay budget/costing)
5. Terra Incognita	
5.1 Failure to identify markets, products and customers	Marketing (this should include a review of the marketing plan) Product Development

This can then be translated into a Strategic Internal Audit Plan (an example of which is provided on the next page).

STRATEGIC INTERNAL AUDIT PLAN

Audit	Description	Year(s)	Number of Days
Strategic Risks			
Corporate Planning	The audit will consist of a review of the production and management of business plans. A review of the organization's risk management arrangements will also be included in this audit.	1-3	
Corporate Governance	The audit will focus on roles and responsibilities of the Board of Directors, the register of interests, Fraud and Corruption and Whistleblowing Policy, and the process for the appointment of directors and assessment of their skills and induction of these individuals in the first year. Audits in the following years will focus on the performance monitoring and composition of the governing body.	1-3	
Organization Structure	This will involve an assessment of the current structure and comparisons will be made to Best Practice.	1	
Reputation Management	This will consist of a review of the controls in place in the organization for the management of reputation risk. Risks that will be addressed will be adverse publicity and the action plans in place to combat this and disaster recovery.	1	
Corporate Brand Development	This will examine the way in which the organization portrays itself in the marketplace and will involve discussion with employees.	2	

Financial Risks		Year(s)	Number of Days
Budgetary Control	The audit will consist of a review of the process for budget setting and monitoring. The pay budget/costing will be examined as part of this review.	1-3	
Income and Debtors	This will consist of a review of the process for the recording and monitoring of income. It shall also examine how new sources of income are identified.	1/3	
Payroll	This will focus on the processing aspects of payroll. The review in year 1 will also cover starters, leavers, variations to pay, advance payments and overtime claims.	1/3	
Staff Expenses	The audit will review the process for the submission and approval of expenses claimed by employees.	2	
Human Capital Risks			
Recruitment and Retention	The audit will consist of a review of the operational arrangements for the recruitment of staff. This review will also focus on retention packages (market supplements and relocation packages)	2	
Staff Training and Development	This will consist of a review of the staff appraisal process and how this links in with the training scheme to ensure professional development.	3	
Absence Monitoring	This will consist of a review of the controls in place for monitoring absence. The audit in the first year will focus on the management of sickness.	1-2	

Human Capital Risks			
Working Time Regulations	This will consist of a review of the arrangements in place to ensure compliance with legislation.	1	
Communications Process	A review will be undertaken on the process of communications in the organization.	1	
Harassment/Workplace Conflict and Working Conditions	This will focus on the arrangements in place to manage workplace conflict and harassment.	1	
Establishment	The audit will review the current establishment structure of the organization and review the current progress on the project on job evaluation of pay and grades.	1	
Operational Risks			
Succession Planning	The audit will focus on the arrangements in place for staffing requirements in the event that key players leave.	1	
Terra Incognita			
Marketing	This will focus on the process for marketing the organization and the media used. The marketing plan/strategy will be examined as part of this audit.	1/3	
New Product Development	This will focus on the products being developed by the organization to meet the needs of its clients. It could be combined with a Competitor Analysis audit.	2	
Follow Up		1-3	
Management		1-3	

Conclusion

The case study illustrates how a group of individuals put their thoughts to paper and identified issues and how these were translated into risks and how an internal audit plan was created. One should note that the plan is not set in stone. This is a living breathing document like a risk register, New risks are identified all the time in a risk register, similarly, an audit on a specific area may uncover problems in other areas, and so additions will be needed to the plan.