CAEs have more than a set of job requirements to fulfill. We exist to help our organizations manage risks to lead to better decisions and performance — in short, bring value to our organizations. However, there is a stellar example right now of internal auditors executing tasks, but doing little of real value.

The U.K. Parliament is looking into the recent collapse of Carillion, a large publicly held construction company in the United Kingdom, leaving “a mountain of debt, potential job losses in the thousands, a giant pension deficit, and hundreds of millions of pounds of unfinished public contracts with vast on-going costs to the U.K. taxpayer.” One of the areas of focus of this inquiry is the work of internal and external audit and whether they might have failed in their responsibilities. The testimony of both of these parties before the UK parliament is very insightful. While internal audit was fully outsourced to a Big Four firm for over 15 years, all CAEs can glean valuable insight from this situation into how a CAE can “fail” by simply executing only the routine tasks of internal audit.

Some illuminating testimony emerged from the person acting as the lead for internal audit at Carillion (whom I will call the acting CAE). I found four areas of concern in his testimony. All quotes included below are from the acting CAE of Carillion and I have added emphasis in italics.

Concern 1: The acting CAE agreed on a three-year plan with the audit committee.
- “Our role is to assess and make recommendations with regard to the company’s control environment. The way we do that is we put together a plan, and we typically do that on a three-year basis and then we have a plan for each year. We do that in discussion with the company and ultimately we take that to the audit committee and we set out to the audit committee what we are doing and what we are not doing.”

Concern 2: The internal auditors did not attend all of the audit committee meetings.
- “...there are many matters that an audit committee considers that would be beyond internal audit...”
- “We were not invited to turn up [at all audit committee meetings] and I really do not think that, in that discussion [about a significant write-down of assets in financial statements], we would have added any value.”

Concern 3: The acting CAE’s focus was on reporting on processes and controls, not addressing risk.
- “...our job [as internal audit] is to assess those controls. We present reports and we raise findings. It is for management then to address those findings. Carillion was actually very good at addressing findings. They were, in my experience, one of the best, actually.”
- “We did reports on that...”
- Discussing collectability of large receivables: “If we did a review in that area [collecting recorded overdue receivables that ultimately contributed to the downfall of Carillion], we would consider it. I do not think anyone is suggesting that Carillion’s processes in terms of raising bills or its debt collection procedures were an issue.”

Concern 4: An area of significant focus of the CEO was not viewed as important by internal audit.
- Considering whether it would have been part of internal audit’s job to ask the CEO about his traveling multiple times to the Middle East to collect an outstanding receivable, a Member of Parliament asked “...didn’t you ask him?” The response by the acting CAE, “No, and I would not see that as being something very helpful”

What I kept hearing in this testimony was internal audit has a plan, focuses on processes and internal controls, and makes reports. These are all good things, and part of the responsibilities of a CAE, but they are nowhere near enough to be what this organization needed from internal audit. I see three big problems with the attitude expressed by how this internal audit function worked.
- Where is the prime focus on risk? Setting out a three-year plan is nice, but can be dangerous if the CAE stops looking at risk and changes the plan infrequently. This organization had some serious struggles over the last few years. It is providing value to stakeholders to default back to a three-year plan as a defense? I find it
inconceivable that the CEO was making numerous trips overseas to collect on an open receivable and the CAE did not even ask why. Something getting this much attention from the CEO needs to get the attention of the CAE.

- The output of internal audit is not a report with recommendations. Internal auditors need to evaluate whether management is addressing risk properly. When they are not, the CAE needs to raise the issue in a way to effect change. The means to accomplish this are often not issuing a report and hoping management takes action on recommendations.
- The CAE was not a trusted advisor to the audit committee. The CAE had this notion that only the select parts of the audit committee meetings where they discussed internal audit plans or reports were important to the CAE. Almost everything that happens in the audit committee should be critical for the CAE. The line of testimony that astounded me the most was “we were not invited” to all audit committee meetings. CAEs, invite yourself! If you do not think you can do this, work on your relationship with the audit committee members so they expect you at all of their meetings.

Internal audit is an important element of governance to help an organization succeed. However, if we let ourselves be relegated to a function that looks only at perfunctory risks, does not engage with executives, and who takes a marginalized role with the audit committee, we will surely fail in our primary objective: providing value to organizations.