Whitepaper

Reducing and Better Managing Red Tape

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Reducing and Better Managing Red Tape

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Highlight an opportunity for internal auditors to help management improve the organisation's operations by challenging unnecessary red tape imposed by the business, or by better managing red tape imposed by regulators and other external parties.

Background

Unchallenged and unmanaged red tape is bad for business. It consumes capital and diverts senior management attention away from strategies that grow the business and deliver services to customers; in the public sector it has a similar effect by consuming limited funding.

Meaning of Red Tape

'Red tape' refers to excessive control requirements that are seen to be overly bureaucratic, cumbersome, and / or redundant. They hinder or prevent strategic initiatives, customer-centric outcomes, and decision-making. Red tape occurs in organisations of all types (private sector, public sector, not-for-profit), usually as a consequence of excessive government regulation, or formal organisational policies, procedures and rules. The term is symbiotic and was derived in the 17th century from the red tape used for binding up legal and other official documents in Great Britain and the American colonies.

Discussion

Issue

When the internal audit function positions itself to help management reduce red tape, or manage it better if it is an externally imposed requirement, they will not only help the organisation save money, but will:

› Help to increase productivity and efficiency.

› Sharpen the business model to deliver results for customers.

› Enable management to focus on the core activities of the business.

› Boost the ability of staff to achieve business objectives and maintain operational processes,

› Improve productivity.

› Eliminate compliance paperwork.

› Remove frustrations that can adversely affect employee job satisfaction.

It should be kept in mind that red tape can be imposed externally (for example, by government and regulators) and internally by management process.

In some situations, the reality is that red tape is imposed by operatives within the business and then gets passed along. Internal auditors need to ensure they apply an open mind and embrace fact-based analyses when they are informed of 'established' internal controls. It could well be a control was established by 'custom and practice' rather than risk-based design.

History

The core principles included in the IPPF highlight that internal audit effectiveness requires the internal audit function to align with the *strategies, objectives and risks of the organisation.* The definition of internal auditing likewise reflects, in part, on the internal audit outcomes of *adding value and improving an organisation's operations.*

The breadth of audit topics included in the internal audit plan continues to expand well beyond the 'traditional' areas of financial management into more complex and strategically important areas that better satisfy the needs and expectations of the audit committee, senior management, and other key stakeholders. Consequently, internal audit planning has expanded and become increasingly sophisticated, and includes contemporary value-adding topics like red tape reviews. These reviews recognise that organisational improvement starts within the business.

There are steps that internal auditors can embrace when completing audit fieldwork so they consciously consider business process improvement opportunities, including the elimination of red tape. These improvement opportunities could be identified through internal audit's own assessment of the Four E's (efficiency, effectiveness, economy, and ethical),

or through discussions with operational management and staff.

Discussion

There are many examples of red tape myths, which are far-removed from reality.

The following sidelight provides an example within a commercially operated business of an internal control that had been established many years previously by 'custom and practice' rather than risk-based design.

Sidelight – It's Not Always as it Seems

When I was the chief audit executive at a commercially operated business, I was challenging management as to why they were persevering with an obviously ridiculous, inefficient and obsolete red tape requirement. Their confident response was that, "it's a longstanding internal audit requirement".

So, I simply said, "well I'm head of internal audit and you don't need to do it anymore." I had done my homework upfront, and it was a defensible decision to eliminate the control. The control was abolished the same day and freed-up staff for other profit-generating activities.

There are also examples of 'red tape' in the public sector that are inconsistent with the broader strategies of the organisation and priorities of government and public sector leadership. This is illustrated by the following 'sidelight'.

Sidelight – Bureaucracy Rules

A classroom teacher commented on the hoops she had to jump through for a recent school excursion. "You are required to create this massive risk assessment of every possible thing that could potentially go wrong on the journey to the zoo, and whilst at the venue. The zoo sent one out. Couldn't believe my luck! Then, I was told it wasn't in the standard format and it needed to be redone, then approved, then saved here and there."

There was a *myth* that the risk assessment for the teacher's class excursion to a zoo had to be in the format prescribed by the organisation's gurus to demonstrate reasonable care.

The *reality* is that the availability of a well-constructed risk assessment should be sufficient to demonstrate reasonable care, with the version available from the zoo was coming from another government department in the same jurisdiction!

The above sidelight highlights unnecessary administration for classroom teachers who are under considerable work pressure on a daily basis, and at a time when there is a critical shortage of qualified, experienced and capable teachers. This is an example of where 'red tape' could be removed to align with broader student-focused education strategies.

Business leaders will periodically deliver profound thought leadership on topics like red tape. An example of this was an Australian Public Service (APS) publication "Reducing red tape in the APS"; the insights remain relevant in 2020. Insights drawn from the publication have been used in **Exhibit 1** to highlight the myths and reality of a recruitment dilemma for a new senior executive in the public sector; the same myth and reality dilemmas can equally occur in the private and not-for-profit sectors.

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<table>
<tr><td colspan="2">Exhibit 1 - Case Study – Red Tape Myths at Odds with Reality
A new senior executive had to undertake a significant recruitment to boost the bench-strength of her team. She had come from a commercial background and expected the recruitment to be quick, efficient, and effective notwithstanding the organisation's policy requiring merit-based selection processes.

At every turn she was advised of the red tape, "no, can't do that", or "you must do this". The stark difference between the red tape advice she received from her staff and corporate support areas and the reality is illustrated below.</td></tr>
<tr><td>The 'Red Tape' Advice Received within the Entity (Myths)</td><td>The Reality Based on the APS Publication</td></tr>
<tr><td>You cannot personally contact people and invite them to apply.</td><td>Individuals can be targeted and encouraged to apply for a position, though it does not guarantee them the role or an interview.</td></tr>
<tr><td>The person delegated to approve the recruitment cannot be on the selection team.</td><td>Not so, in fact this can facilitate quicker selection decisions. All selection team members need to share a sense of purpose, clearly understand what is being looked for, are aware of the personal qualities, skills and knowledge required for the role and understand the combination of selection options being used.</td></tr>
<tr><td>A selection team must have three members and must include a male and a female member.</td><td>A selection team can be a single person. There are no gender requirements, though diversity is good practice.</td></tr>
<tr><td>You cannot ask applicants to provide additional information (to help with short-listing).</td><td>Additional information can be sought. An example might be to ask for a sample of work.</td></tr>
<tr><td>There must be an interview.</td><td>There's no requirement to hold an interview; it's just one of a wide range of possible selection options.</td></tr>
<tr><td>All applicants must be interviewed.</td><td>Not so. Short-listing is an important part of the selection process.</td></tr>
<tr><td>All interviewees must be asked the same questions.</td><td>Not so, but this is a good place to start. Interview questions should test for specific skills and capabilities. Additional questions might help gain further information or clarify an applicant's response, for example their role in a particular situation.</td></tr>
<tr><td>The selection team must obtain a referee report for every applicant.</td><td>There is no requirement to obtain referee reports, especially to be submitted with an application. They are one of a wide range of selection options. Useful in exploring an applicant's previous work performance in relation to specific capabilities of the role.</td></tr>
<tr><td>You can only use written references.</td><td>Not so. In fact, a verbal reference is not only acceptable, it also allows you to collect better evidence.</td></tr>
<tr><td>Only nominated referees may be contacted.</td><td>You can contact people other than nominated referees such as previous managers, as long as you comply with the privacy legislation, and apply procedural fairness and natural justice. Advise the applicant in advance and give them an opportunity to address any adverse comments that arise. You are not obliged to speak to all referees nominated by the applicant.</td></tr>
<tr><td colspan="2">Note: Referees are people known to an applicant, and they play a crucial role in adding a third-party perspective to a prospective employer on the applicant's work ethic, skills, employment history, strengths, and additional information. They will usually be contacted personally by telephone or through electronic channels. Their feedback is usually documented in a 'referee report'.

Source: Team Leader's Guide to Internal Auditing (to be published in 2020 by the Internal Audit Foundation).</td></tr>
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Internal auditors should apply an open mind and embrace fact-based analyses when they are informed of established internal controls, just as the executive in the above case study needed to do when confronted with advice on the organisation's supposed 'checks and balances' in the recruitment process.

Auditors could embrace suitable process improvement and continuous improvement concepts, such as the *theory of constraints.*

What is the Theory of Constraints?

The premise of the theory of constraints is that where a business process has a constraint such as a bottleneck or weak link, it diminishes the output and throughput of the process and, ultimately, impacts adversely on sales, customer satisfaction, and profit. It identifies the weakest area of a process, or the weakest system of the business, and focuses improvement efforts on that area. Constraints can be physical such as machine capacity, resources working on a task, weather, or availability of material) or non-physical such as company policies and procedures, employee engagement, or low product demand. Eliminating unnecessary, uncompromising, and costly red tape has the potential to address some of these business constraints.

Taking a proactive stance with regulators can also be hugely beneficial. In his book 'Culture Fix' (Wiley 2020, page 149) author Colin D Ellis relates a story where he was able to "cut back by almost two-thirds what was previously submitted (to the regulator) and we received a glowing report at our next audit". This outcome was achieved by simply meeting with the regulator to understand their actual requirements.

Five Action Steps

1. Determine the audit committee and chief executive appetite for red tape reduction reviews by aligning these where possible with the organisation strategies, objectives, and risks.
2. With the support of the audit committee and chief executive (if they are amenable) make provision in the internal audit plan for red tape reviews.
3. Where red tape reviews are included in the annual internal audit plan, consider the capability needs of the internal auditor cohort, and any associated tools and techniques that need to be developed or acquired.
4. Invest as appropriate in capability development of internal audit staff and any tools, and develop sustainable red tape review techniques.
5. When planning and executing engagements involving red tape reviews, embrace the following five key fieldwork steps:
   a)　Identify processes that could be improved or eliminated, and prioritise them based on risk and potential benefits to the organisation.
   b)　Map the process to understand how it works in practice, including the risks and controls, the steps, the participants, the goals, and any connections or interfaces with other areas, then model the process to determine how it could work more efficiently and effectively.
   c)　Attribute a cost saving or customer benefit that would be delivered through the change and recommend the revised process to management and have them execute it with all its improvements.
   d)　Review the revised process once it has been in operation to confirm improvements have been optimised. Consider what worked well and what didn't to identify any further improvement points.
   e)　Report the outcomes of individual red tape reviews to the audit committee and management as part of the regular reporting approach, periodically consolidate the outcomes and cost savings / customer benefits, and provide these in a high-level report to the audit committee and senior management either as a separate themes-based periodic red tape report, or as part of the internal audit annual report.

Conclusion

The internal audit function at all organisations (public sector, private sector, not-for-profit) needs to align with the strategies, objectives and risks of the organisation in line with IPPF core principles, and ensure internal audit outcomes are optimised in adding value and improving their organisation's operations consistent with IPPF definition of internal auditing.

One of the areas that organisational improvements can be achieved is through elimination or reduction of self-imposed red tape, and by better managing externally imposed requirements. Internal audit plans should consider and recognise these opportunities.

Bibliography and References

The content of this paper has been substantially sourced from the Team Leader's Guide to Internal Auditing, by Bruce R Turner (to be published in 2020 by the Internal Audit Foundation).

Colin D Ellis, Culture Fix, (Sydney: John Wiley & Sons, 2020), 149.

"Reducing red tape in the APS" (Australian Public Service). Australian Government archives, www.apsc.gov.au/reducing-red-tape-aps (sourced 9 January 2020). 2007.

Purpose of White Papers

A White Paper is an authoritative report or guide that informs readers concisely about a complex issue and presents the issuing body's philosophy on the matter. It is meant to help readers understand an issue, solve a problem, or make a decision.

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Author's Biography

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Bruce remains active as an audit and risk committee chair, company director, executive coach, mentor, and white ribbon ambassador. He has held board and independent audit committee roles over the last decade in thirty diverse organisations, including six years on the IIA–Australia Board to mid–2018.

His forty years of practitioner and leadership experience in internal auditing across the globe traverses the energy, financial services (commercial, merchant and central banking), government, manufacturing, and transport sectors. Prior to his retirement in 2012, he held Chief Audit Executive roles at the State Rail Authority of NSW, Integral Energy Australia, and ultimately the Australian Taxation Office.

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About the Institute of Internal Auditors–Australia

The Institute of Internal Auditors (IIA) is the global professional association for Internal Auditors, with global headquarters in the USA and affiliated Institutes and Chapters throughout the world including Australia.

As the chief advocate of the Internal Audit profession, the IIA serves as the profession's international standard-setter, sole provider of globally accepted internal auditing certifications, and principal researcher and educator.

The IIA sets the bar for Internal Audit integrity and professionalism around the world with its 'International Professional Practices Framework' (IPPF), a collection of guidance that includes the 'International Standards for the Professional Practice of Internal Auditing' and the 'Code of Ethics'.

The IIA–Australia ensures its members and the profession as a whole are well-represented with decision-makers and influencers, and is extensively represented on a number of global committees and prominent working groups in Australia and internationally.

The IIA was established in 1941 and now has more than 200,000 members from 190 countries with hundreds of local area Chapters. Generally, members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.

Historians have traced the roots of internal auditing to centuries BC, as merchants verified receipts for grain brought to market. The real growth of the profession occurred in the 19th and 20th centuries with the expansion of corporate business. Demand grew for systems of control in companies conducting operations in many locations and employing thousands of people. Many people associate the genesis of modern internal auditing with the establishment of the Institute of Internal Auditors.