Root Cause Analysis – An important tool for Internal Audit
By James C Paterson

Over the past 14 years working in the internal audit arena I have seen a growing interest in the topic of Root Cause Analysis (RCA). My involvement in the topic has evolved from using it as part and parcel of a “lean auditing” approach, to running RCA webinars and seminars for the IIA in the UK and Sweden and elsewhere to the delivery of various in-house training workshops on this topic. I was also responsible for helping the IIA UK to up-grade its guidance on Root Cause Analysis (published in 2015).

This article explains:
- What Root Cause Analysis (RCA) is
- What involvement should Internal Audit have in RCA
- Why effective RCA is not always as straightforward as you might think
- Why RCA is gaining interest
- Some practical steps audit teams can take

What is RCA?
RCA is about identifying why an issue occurred compared to simply reporting the issue, or its immediate, or contributing, causes. The issue could be an error, non-compliance, and non-delivery of an objective or anything else that would be regarded as a failure or problem in the eyes of stakeholders. Effective RCA techniques come from lean / six sigma disciplines and good techniques include the 5 whys, the Ishikawa diagram, the logic tree and Pareto analysis (preferably in combination).

What role should Internal Audit have in RCA?
The IIA has a useful practice advisory (2320-2) on this topic:
“Auditors whose reporting only recommends that management fix an issue and not the underlying reason that caused the issue are failing to add insights that improve the longer-term effectiveness and efficiency of business processes and thus the overall GRC environment”.

It goes on to say:
“A core competency necessary for delivering insights is the ability to identify the need for RCA and, as appropriate, actually facilitate, review and/or conduct a root cause(s) analysis”.

In my experience most audit teams believe they are analyzing root causes but in practice their level of skill in doing this can be rather mixed, with only a few teams having an explicit RCA methodology and offering structured training on effective RCA techniques. I think the reason for this is that many internal auditors think they will naturally be good at RCA: and whilst it is true that some are, many are not as good at RCA as they might think. However, room for improvement in RCA applies equally to many managers.

Why effective RCA is not as straightforward as you might think
When things don’t go according to plan in an organization there can often be a pressure to avoid taking the blame for what has gone wrong (for fear of the impact this might have on ones performance assessment or potential rating). Consider an IT system implementation that was delayed and over budget: it
can be tempting to:

- Blame External factors (“the IT contractor made things too complicated, adding time and cost”), or
- Find a politically acceptable reason for the problem (“the IT department didn’t manage the project so well”) or
- Say that “projects are always over budget and a bit late, its just one of those things”

In each case there is unlikely to be any real organizational learning or long-term solution since they are not getting at any underlying reasons.

Even where there is a genuine intention to carry out an unbiased RCA it can be easy to identify “obvious” issues that can be improved and to classify these as the root causes. For example, in the case of the IT system implementation running over budget; it can be easy to say:

- The finance department didn’t properly keep track of the project costs”,
  (which may have been the case);

However, even if this is true, such an analysis does not represent a proper RCA since it fails to address the underlying reasons why finance was not keeping track of the IT project costs?. In addition, it risks ignoring other factors responsible for the problem (e.g. why were the costs more than budgeted? and why was the project delayed?)

If we continue with this example of problems with an IT implementation, we might discover:

- There was no clear, agreed, role for finance staff to monitor IT project costs and limited training about the sorts of issues that can arise and how to identify them on a timely basis.
- The finance department has limited resources and therefore was limited time for finance staff to do the analysis that might uncover issues with IT project cost estimates.

Thus simply saying that finance department should keep track of project costs ignores the underlying causes that led to this, and therefore may not offer a long-term solution that lasts.

Looking at other reasons that may have contributed to the project running late and over budget we might uncover that project decisions (to adjust the scope of the system implementation) were made without fully thinking through the impact on time and cost, and key staff who would know this were not properly involved in these decisions.

And we can go further: why were some users of the IT system not engaged as extensively as they might have been? The answer might be: Because the systems users were busy on other business tasks and initiatives, which meant they did not contribute as fully as they could have done about what was going to be really important.

And, going even further: why were these staff not as engaged in the system design and practical issues as they might have been? And the answer is: Because the project budget had limited provision for back-filling operational staff.

Thus we may find that one of the contributing factors to the IT project going
over budget was linked poor budget and resource decisions at the very start of the project! Creating the very problem that senior management were trying to avoid!

Thus an effective Root Cause Analysis will normally reveal multiple factors contributing to problems and offer a deeper and more realistic insight into the cultural and political factors that contributed to difficulties. Indeed although a proper RCA process is more “forensic” than an intuitive approach, it is actually less likely to blame any one individual or process. In reality the reasons for many issues are due to a complex blend of process, system and organizational factors and effective RCA will make this clearer.

Why RCA is gaining an interest in audit
Apart from the fact that it is good practice to carry out robust RCA, my experience is that the growing interest in being more professional in relation to RCA is due to two key factors:

1) An increasing realization by IA teams that some issues keep repeating themselves, despite IA raising the same, or similar, audit points on a regular basis. I call this the “Groundhog day” phenomenon based on the film in which the lead character has to live the same day over and over again. Indeed some HIAs that I have worked with have said: “I could often write 80% of an audit report in advance – there will always be problems with accountabilities, risk registers will normally not be up to date, managers will not do enough monitoring. Etc. Etc.” This is a clear warning sign that Root Causes are not being addressed effectively.

2) A recognition of the importance of understanding the cultural factors that are contributing to audit findings, with an increasing expectation that audit teams should comment on the risk and control culture of the organization, and a realization that effective RCA is an important “window” into the culture of an organization (as discussed earlier).

Some practical steps audit teams can take
My advice would be for audit teams to consider and debate:

1) How often do issues repeat themselves (e.g. are there common themes uncovered by audit, or through any management incident reporting?);
2) What does the current IA methodology say about the need to carry out a Root Cause Analysis or recommend that management do this?
3) What guidance and training is provided to IA team members in relation to Root Cause Analysis – e.g. 5 Whys, The Ishikawa diagram, Logic Trees, Pareto analysis? (Note a combination of techniques is more powerful than just one).
4) What Root cause categories are currently being used by the audit team, and how do these compare to the IIA guidance?

If there is room for improvement in any of these areas, auditors should familiarize themselves with the IIA practice advice materials and either:

i) start to pilot the use of techniques such as the “5 whys” and “the ishikawa (fishbone) diagram” in selected assignments or
ii) try to analyse the common themes in audit findings and assess the root causes for these using an organizational model such as “Burke Litwin” or

iii) consider whether more in-depth training could be used as a way of building IA team competence and clarifying priority areas for action.

If you are interested to learn more about Root Cause Analysis and how it can help Internal Audit teams contact jc@RiskAI.co.uk or attend an up-coming course.