

STAFFING/RESOURCING CONSIDERATIONS FOR INTERNAL AUDIT ACTIVITY

Introduction

Knowledgeable and competent resources within internal audit are needed to ensure assurance and advisory work are performed in alignment with the organization’s expectations and in conformance with widely accepted principles and standards.

Consistent with The Institute of Internal Auditors’ (IIA) International Professional Practices Framework (IPPF) standard on proficiency (1210), CAEs must ask themselves “Do I have the right resources (regarding experience, language needs, technical knowledge and qualifications) in the department to conduct the audit?” and “If not, who or what resources can be utilized to provide internal audit services sufficient to accomplish the tasks at hand?”

In practice, organizations utilize a number of different staffing/resourcing alternatives ranging from a 100-percent in-house dedicated staffing solution, to the utilization of internal “guest auditors,” to resources obtained wholly from outside the organization, or any combination thereof. This diversity of practice raises a question about the optimum balance of internally and externally supplied resources. The purpose of this paper is to provide guidance and clarify the roles of the board and the chief audit executive on resourcing the internal audit activity and the various issues involved.

The IIA believes internal audit is most effective when its resource level, competence, and structure are aligned with organizational strategy, and it follows The IIA’s *Standards*. These key factors should be kept in mind when contemplating the best approach to internal audit within the organization.

The IIA believes a fully internally resourced audit function is most effective and can be supplemented by external experts in specialty knowledge areas. Nevertheless, several sources (e.g., The IIA’s Common Body of Knowledge survey) indicate most internal auditing practitioners agree it is appropriate to use a combination of external resources, in cosourcing or outsourcing models, to help complete the audit plan. However, there is little agreement on what might be an appropriate amount or allocation of external vs internal resources, not to mention how to measure it. The difficulty in answering this conundrum lies first in one’s ability to understand the size, nature, and complexity of the organization for which the internal audit activity is providing services. The practice of total outsourcing — obtaining 100 percent of internal audit services

KEY TAKEAWAYS

*Ultimate oversight and responsibility for the internal audit activity **cannot be outsourced.***

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Internal auditing best addresses management’s strategic objectives when internal audits are performed by competent professionals in conformance to IIA Standards.

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Careful and thoughtful consideration should be given to partially or fully outsourcing the internal audit activity.

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The board should receive a written evaluation of any recommendation to significantly change either outsourcing or cosourcing strategies for obtaining internal audit services.

from outside the organization – generates additional questions about how to manage this arrangement.

There are many considerations that should be evaluated in determining the optimal structure and source for internal audit services. Those responsible for making such determinations should evaluate the additional guidance and considerations outlined in this Position Paper when considering outsourcing as an alternative. The optimal solution is different for every organization and also may change over time as the variables that influence the evaluation change.

The Institute of Internal Auditors Perspective

As an independent, objective assurance and consulting activity designed to add value and improve an organization's operations, internal audit helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal auditing best addresses management's strategic objectives when internal audits are performed by competent professionals in conformance with the *Standards* as promulgated by The IIA.

A fully resourced and professionally competent staff that is a key part of the organization, whether in-house or outsourced, best provides internal audit services. The IIA recognizes that many "partnering" arrangements with outside providers have been effective in helping organizations obtain internal audit services that contribute to the achievement of management's strategic objectives.

In cases where total outsourcing is selected as the method for obtaining internal audit services, oversight and responsibility for the internal audit activity **cannot be outsourced**. An in-house liaison, preferably a designated chief audit executive or optionally an executive or senior management-level employee, should be assigned responsibility for "management" of the internal audit activity. The responsibility for creating and maintaining a Quality Assurance and Improvement Program (QAIP) – Standard 2070 – remains with the employee, as the standard applies to the function, not the provider.

Consideration of the independence of the assigned in-house liaison must be evaluated if this individual has other (non-internal audit) responsibilities. The role of the board or equivalent governing body also is important in the oversight process and the level of active oversight should be considered.

The board should receive a written evaluation of any recommendation to significantly change either outsourcing or cosourcing strategies for obtaining internal audit services. The board's evaluation and approval should be noted in the minutes. Given the significance of internal auditing to the organization's governance process, any recommendation to totally outsource (or to outsource a significant portion of) the internal audit activity should require approval of the board.

FIVE QUESTIONS

Partial or full outsourcing of the internal audit activity are common practices, but they can create unintended risks to the organization without proper understanding and oversight by the board.

Here are five key questions the board should be asking:

- 1. Why is outsourcing being considered?*
- 2. Are there guidelines or policies in place that address when and how outsourcing of internal audit services takes place?*
- 3. Does responsibility for internal audit remain within the organization?*
- 4. What arrangements are being made to maintain a Quality Assurance and Improvement Program (QAIP) within the organization and to ensure performance of periodic external quality assessments based on IIA Standards?*
- 5. Do contracts and/or engagement letters address ownership of work products and other deliverables?*

Considerations for Evaluating Outsourcing Alternatives

Available Resources – For a number of reasons, appropriate internal audit resources may be scarce or unavailable in certain situations. Whether selected as a temporary alternative or permanent solution, outsourcing may be necessary to acquire competent and professional internal audit services.

Size of the Organization / Reasons to Consider Outsourcing – Both large and small organizations may need to take advantage of staffing alternatives. Common reasons include temporary staff shortages, specialty skill needs, coverage for remote business locations, local language needs, special project work, and supplemental staff to meet tight deadlines. Also, small organizations may find it necessary to explore outsourcing due to the inability to hire permanent or fulltime internal auditors.

Types of Outsourcing Alternatives – Organizations may need to define the types of outsourcing engagements or practices to be considered. Outsourcing alternatives include:

- Total outsourcing where 100 percent of the internal audit services are obtained from external sources, usually on an ongoing basis. (Note: refer to earlier comments about in-house liaison).
- Partial outsourcing where less than 100 percent of the internal audit services are obtained from external sources, *usually on an ongoing basis or for specific terms*.
- Cosourcing through which external resources participate on joint engagements with in-house internal audit staff.
- Cosourcing or subcontracting for a specific engagement or portion of some engagement is performed by an external party, *typically for a limited time period*. Management and oversight of the engagement normally is provided by in-house internal audit staff.

Law, Statute, or Regulation – Some companies may be prohibited by statute or regulation from outsourcing internal audit services to their external auditors. Even if allowed by law or statute, internal auditing should never be outsourced to the same external audit firm that audits the organization’s financial statements as this would impair independence. Certain industries may be subject to regulatory guidance governing outsourcing arrangements. Appropriate research should be conducted in order to evaluate legal considerations related to outsourcing engagements.

Advantages and Disadvantages of Outsourcing

In addition to the considerations discussed above, an analysis of the advantages and disadvantages to alternative staffing solutions should be prepared. The extent and formality of the analysis, and subsequent reporting, should be commensurate with the degree or extent of outsourcing contemplated. Greater documentation and more formal reporting and approval should be obtained when a significant portion of the internal audit activities is outsourced. Although not all-inclusive, the sidebar titled “Outsourcing Considerations” provides items that should be considered in the analysis.

Contracts and Engagement Letters for Outsourcing Engagements

Consideration should be given to the content of contracts and engagement letters for outsourcing engagements. Deliverables, such as workpapers, reports, recommendations, conclusions, opinions, ratings, benchmarking information, and analyses, should be considered. Deadlines, progress reports, access to staff for discussion of results, and follow-up should be addressed. Ownership of workpapers and use of results should be addressed. Restrictions or limitations, as well as strengths and additional benefits, should be evaluated. Compensation issues should be clearly defined.

Policy for Outsourcing Engagements

Some organizations may find it beneficial to adopt a policy or formal guidelines for contracting outsourcing engagements. Documentation and approval requirements can be addressed to facilitate arrangements for outsourced services. Additionally, organizations may wish to adopt or designate preferred provider relationships to facilitate efficient selection and procurement processes for acquisition of internal auditing. Organizations should also follow IIA Standard 2070 when obtaining external services to support or complement the internal audit activity. The IIA’s [Global Advocacy Platform](#) provides an overview of internal audit’s role in good governance.

OUTSOURCING CONSIDERATIONS

- Independence of the external service providers.
- Allegiance of in-house resources versus that of external service provider.
- Professional standards followed by the external service provider.
- Qualifications of the external service provider.
- Staffing – training, turnover, rotation of staff, management.
- Flexibility in staffing resources to meet engagement needs or special requests.
- Availability of resources.
- Retention of institutional knowledge for future assignments.
- Access to best practice or insight to alternative approaches.
- Culture of the organization – receptiveness to external service providers.
- Insight into the organization by the external service provider.
- Coverage of remote locations and local language needs.
- Coordination with in-house internal auditing.
- Coordination with external auditor.
- Use of internal auditing as a training ground for internal promotions.
- Retention, access to and ownership of workpapers.
- Acquisition and availability of specialty skills.
- Cost considerations.
- Good standing membership in an appropriate professional organization.

About Position Papers

The Institute of Internal Auditors (IIA) promulgates Position Papers on key issues of interest to stakeholders and practitioners with the aim of advocating for sound governance and educating those involved in it. The positions outlined offer insights into various aspects of the governance process and internal audit's vital role in improving governance at all levels and adding value to the organization. Position Papers are developed and reviewed through a rigorous process that solicits input and critique from practicing internal audit professionals and other IIA volunteers who serve on The IIA's Global Advocacy Committee, IIA Standards Board, and The IIA's Professional Responsibility and Ethics Committee.

About The Institute of Internal Auditors

The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 190,000 members from more than 170 countries and territories. The IIA's global headquarters are in Lake Mary, Fla. For more information, visit www.theiia.org.

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May 2018



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