

**IIA POSITION PAPER:  
THE ROLE OF INTERNAL AUDITING  
IN RESOURCING  
THE INTERNAL AUDIT ACTIVITY**

## Introduction

When considering the resourcing of the internal audit activity a question that often arises is, “Who or what resources can be utilized to provide internal auditing?” In practice, organizations utilize a number of different alternatives ranging from a fully resourced activity housed within the organization to external resources obtained from outside the organization, or any combination thereof. This diversity of practice raises a question in some organizations concerning 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, management, and the chief audit executive on resourcing the internal audit activity and the various issues involved.

Anecdotal evidence indicates most practitioners agree that utilization of some amount of external resources, or partial outsourcing, is appropriate. However, there is little consensus on what might be an appropriate amount of external resources, not to mention how to measure it. This is because it is not possible to answer such a question without understanding the size, nature, and complexity of the organization for which the internal audit activity is providing services. The practice of total outsourcing or obtaining 100 percent of internal audit resources 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 resources. 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 can be different for every organization and also may change over time as the variables that influence the evaluation change periodically.

## The Institute of Internal Auditors’ (IIA) Perspective

Internal auditing is defined as “an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It 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.”

The IIA’s principal interest is to promote internal audit activities that provide the maximum overall effectiveness in helping achieve the organization’s strategic objectives. The IIA believes internal auditing best addresses management’s strategic objectives when internal audits are performed by competent professionals in conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* as promulgated by The IIA.

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From The IIA's perspective, internal auditing, regardless of who provides the service, should be performed in conformance with the *Standards*. The IIA believes that 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 management's strategic objectives.

In cases where total outsourcing is selected as the method for obtaining internal audit services, The IIA believes that **oversight and responsibility for the internal audit activity cannot be outsourced**. An in-house liaison, preferably an executive or senior management-level employee should be assigned responsibility for "management" of the internal audit activity. 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.

If a significant change to either outsourcing or in-sourcing, is being considered as the means of obtaining internal audit services the board should receive a written evaluation of the recommendation. 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.

## **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 internal auditors and timely, professional internal auditing.

### **Size of the Organization**

Both large and small organizations may need to take advantage of outsourcing alternatives. Common reasons include temporary staff shortages, specialty skill needs, coverage of remote business locations, 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 full-time 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.
- Partial outsourcing where less than 100 percent of the internal audit services are obtained from external sources, usually on an ongoing basis.
- Co-sourcing through which external resources participate on joint engagements with in-house internal audit staff. Engagements may be ongoing or for specific terms.
- 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. The IIA believes that even if allowed by law or statute, internal auditing should not 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 outsourcing 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 are outsourced. Although not all-inclusive, the following should be considered in the analysis:

- 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 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
- 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

### **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 (such as value added), 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.

### **IIA Guidance**

Organizations should follow related IIA guidance, such as Practice Advisory 1210.A1-1, when obtaining external services to support or complement the internal audit activity. The guidance contained in this Practice Advisory also should be reviewed when performing the analysis to consider outsourcing alternatives.

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