

SELECTING AN OUTSOURCED INTERNAL AUDIT PROVIDER

By Kastuv Ray

Potential internal audit clients can just go onto the Internet and type the words “internal audit consultancy” and be presented with a multitude of options. Providers range from the Big 4 and mid-tier firms to small firms and specialist consultancies.

More and more organizations are setting up internal audit departments. Many recruitment consultancies and recruiters will agree that organizations have a hard time recruiting good internal auditors. In this business climate, the market for outsourced internal audit is growing as new opportunities present themselves.

Outsourcing internal audit may take many forms:

- The whole function may be outsourced,
- Outsourced internal auditors may be temporarily filling in a vacant post so that the in-house Internal Audit Department can fulfil its annual plan,
- Specialist advice may be provided on areas such as risk management, corporate governance and the strategic aspects
- There is a proportionate split with some work being provided in-house and the rest by an independent provider.

Outsourcing the internal audit function may be a good idea. The organization is working in partnership with an independent provider. Many internal audit consultancies specialising in the public sector have worked on the notion of the “Public Sector working in partnership with the Private Sector”.

Professor Andrew Chambers in his book on “Leading Edge Internal Auditing” lists key attributes of World Class Auditing in the Year 2000. The key words are listed below:

- Professional
- Close to the business
- Provide solutions
- Independent
- High profile
- Change agents
- Customer - focused
- Expert in controls
- Cost - effective
- Multi-skilled

In addition to this, there are key strategies for internal auditing to achieve by the Year 2000 (also stated in Professor Chamber’s publication):

- Establish and communicate a clear vision and strategy
- Demonstrate the value of internal audit
- Understand customer needs
- Focus on risk
- Improve the communication of results

- Improve the audit process
- Educate management on risks and controls

These are key attributes and strategies that a potential client would seek from an outsourced provider. I am sure that there are many in-house internal auditors who can also look at the list and admit that they have some or all of the above attributes.

Moreover outsourced internal audit providers may have experience from different sectors and can provide advice/guidance on “Best Practice” in the sector. They are flexible to your needs, have adequate resources and have the necessary knowledge and technology to assist the organization in meeting its objectives.

Selecting the “right” independent internal provider can be a very difficult decision. In many cases, organizations undergo a tendering process and then tenders are submitted in writing and then there are presentations. Some internal audit providers may slightly exaggerate in the tender about their experience, resources and staff. An interesting publication to read is “Deception in Writing – Uncovering the Truth” by Maxima Group plc (website www.Maxima-Group.com). This may alert the reader to any statements that do not ring true. As stated in past issues of Inside Fraud which have focused on the 911 scams, “If it looks too good to be true it is.”

Selecting an internal auditor based on their presentation can be likened to selecting chocolate eggs from a confectionery shop. I will refer to three types of eggs in my example:

- The hollow chocolate egg
- The Cadburys Crème Egg
- The Kinder Surprise Egg

The hollow chocolate egg has impressive packaging but is hollow. If we link this to the actual presentation, the client is impressed by the presentation skills of the provider and the promises are good. When it comes to delivery and quality of work, six months down the line, the client finds out that the standard of work is poor and the dream that was conjured up in those minutes was a lie.

The Cadburys Crème egg has extremely colourful packaging, an established reputation, and a creamy centre and tastes extremely nice. In this case, after you have eaten the egg, you want more. This is the “what you see is what you get provider”. Again, the presentation is impressive; the organization undertaking the presentation has a well-established reputation presents a professional and corporate image and has a leading edge technology and knowledge base supported by talented auditors.

The Kinder Surprise egg does not have the shiny packaging of the above two eggs. It tastes good and there is a little surprise gift inside. Here the presentation is standard. The delivery of the work is not only good but it exceeds your expectations. The auditors will go the extra mile in meeting your needs. They may have a different approach to others where they have not only presented the client with recommendations but suggest model frameworks or examples of Best Practice.

At the end of the day, choose your audit provider carefully. In an extreme hypothetical case, a client may be shocked to find that they have actually had a financial systems audit undertaken by a computer auditor with no understanding of financial accounting. Assurance may be provided in the report that the internal controls are fine with regard to say the main accounting controls, only to find 6 months down the line that the auditor didn't look at the financial aspects. This matter may be brought to light by say the external auditor upon examination of the internal auditor's files. This would clearly be an embarrassment for both the client and the internal audit provider.

When selecting a provider, undertake the necessary background checks on the provider such as obtaining references and checking qualifications of named staff promised. The last thing that a client may want is to be promised an adequately resourced team only to find that in their most urgent time of need, they are faced with a paralysis situation where there are too few people, under skilled and in too many places trying to tackle too much data.

The decision rests with the organization, their needs, management's objectives and what they want to achieve by outsourcing their internal audit function. It is important to remember that the cheapest provider is not always the best provider. If internal audit is indeed intended to be part of your team and business, make the decision carefully. At the presentation, the potential client has the right to ask to meet members of the proposed internal audit team before making a decision.