

Internal Audit outsourcing Meeting the evolving demands of the organization



Traditionally, Internal Audit (IA) functions focused on providing core assurance around business process risk and controls. But with increasing market volatility and complexity, IA is being asked to deliver insight and value beyond assurance — particularly in the areas of strategy execution, emerging risk, and the rising use of data analytics. As a result, many IA departments are struggling to recruit and retain resources with the specialized skill sets to meet this demand. They are also facing competition to retain their core assurance resources.

The potential benefits of outsourcing

To provide added value and fill gaps in skills and talent, many leading organizations are turning to outsourcing. In a full outsourcing arrangement, an external service provider acts as the IA function, helping to:

- Provide the organization with a greater level of assurance and risk coverage
- Offer short- and long-term cost flexibility and scalability
- Save the organization as much as 20 percent to 40 percent in costs
- Boost operational efficiency and performance
- Coordinate with the organization's governance, risk, and compliance program
- Identify and manage emerging risks more effectively
- Provide broader skills sets and deeper industry specialization, on an as-needed basis
- Supply intellectual capital, offering proactive insights and recommendations on leading practices

- Provide access to leading-edge tools and methodologies, such as data analytics
- Redeploy valuable internal resources toward core business activities
- Execute on business strategy more effectively and achieve strategic goals and objectives
- Transfer knowledge and capabilities to the organization

Furthermore, being accustomed to an assurance role, many IA departments may not stray far from this area of expertise. But when internal auditors stick solely to “what they know,” it can be difficult to meet the evolving risks, strategies, and needs of the organization. An external service provider can offer a consultative mindset on a range of risks and issues, as well as industry-specific leading practices and knowledge acquired by working with other clients.

Is IA outsourcing right for you?

To determine if outsourcing is right for your organization, ask yourself:

- Is your IA function auditing to the risk or business profile of your company? Or is it auditing to its own capabilities?
- Does IA have the talent and capabilities to address the evolving risk environment? Or is it struggling to keep pace with regulatory and marketplace changes, as well as escalating demands? And how effectively does your organization identify, recruit, and retain skilled IA professionals?

- Can your IA department leverage leading technologies, such as data analytics, to identify trends and patterns and provide deeper intelligence on business issues?
- Is IA misaligned — that is, does it create potential exposure to your organization when critical risks are not appropriately addressed?
- Does IA have the subject matter expertise to provide insights and offer quality improvement recommendations?
- Can IA contribute to strategy discussions? Does it have the consultative mindset to help your organization execute on business strategy when entering a new market, developing a new product, or acquiring or merging with another company?
- If you are in a high-growth, high-stress, or highly regulated industry, could your organization benefit by redeploying IA professionals to other areas?
- Are you getting value from IA that is commensurate to what you are spending?

IA outsourcing is one way to help deliver higher levels of independence and assurance, provide more detailed and unfiltered information, and offer broader value to the organization.

Keys to success

There are a few factors that are important to the success of an IA outsourcing initiative. These include:

- Alignment among IA, executive management, and the board regarding how risks should be assessed, monitored, and managed
- Clearly defined communications and expectations (i.e., how frequently and to whom issues should be communicated)
- Established and explicitly documented lines of authority and responsibility

By focusing on these areas, organizations can help their IA outsourcing initiatives stay on track and meet desired objectives.

Outsourcing IA to meet a range of demands

As business becomes more complex, and as organizations demand greater value from Internal Audit, IA functions are increasingly stretched to do more with less. Outsourcing the IA department can help meet this array of demands — from reducing costs to improving performance to boosting operational efficiency. Outsourced IA functions can also provide insights beyond assurance and compliance by offering a truly strategic capability.

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