



# Co-Sourcing of Internal Audit Services

*Small Practice Interest Group*

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# Co-Sourcing - Agenda

- Session format
- Co-Source vs Outsource
- Why Co-Source?
- Challenges
- Key Success Factors
- Summary

# Session format

- Discussion / Sharing of Experiences
- Objective is to learn
- Chatham Rules
- Present / Past Experiences
- Interactive
- Individual take aways

# Think about.....

- Why did you consider Co-sourcing?
- What was your Co-sourcing relationship like?
- Why was your Co-sourcing a success?
- If not, why did it not work?
- What were your challenges?
- What would you do differently?
- What did you learn?

# Co-Sourcing vs Outsourcing

- **Advantages & Disadvantages of each**
- **Outsourcing**
  - All IA responsibilities done externally
  - Provider reports directly to Audit Committee
- **Co-Sourcing**
  - IA responsibility stays in-house (at least have CIA)
  - Mix and choose engagements
  - Relationships & business process knowledge stays
  - Options of performing & branding engagements

# I IA IPPF Performance Standard

## 2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

### **Interpretation:**

*Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.*

# Why Co-Source(1)?

- Lack of time or resources
- Costs (\*\*\*)
- Broad range of expertise / specialist skills
- Non-routine services
- Truly independent / External view
- Issue with retention of auditors
- Headcount restraints
- Increase or decrease number of audits easily

# Why Co-Source(2)?

- Innovation
- Leading practice methodology, tools/techniques
- Knowledge transfer
- Training and skills development
- Special capabilities needed
- Providing value-add services
- Access to global knowledge bases

# Public Sector Examples

## Organisation 1 Drivers/Deliverables

- High level focus
- Assurance that key risks are managed
- Annual internal audit programme
- "N" of internal audits per year
- Reports
- Audit Committee attendance

# Public Sector Examples

## Organisation 2 Drivers/Deliverables

- Strategic Connectivity
- Resourcing flexibility
- Depth of capability/expertise
- Continuity of services

# Co-Sourcing Challenges

- Responsibility of IA function
- Independence
- Limited organisation knowledge
- Ownership of process
- Initial learning time
- Provider staff changes
- Relationship building
- Individual responsibilities
- Managing two cultures/perspectives

# Co-Sourcing Challenges

The most flagrant conflict of interest in the Enron case was outsourcing the internal audit function, because Andersen was in effect auditing its own work.

.....Former SEC Chairman Arthur Levitt

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# Key Success Factors

- Strong in-house IA department
- Agree on criteria for co-sourcing
- Agree on scope, risk, costs, and activities
- Adequacy of audit procedures and findings
- Document and monitor relationship
- Find the synergy
- Review against the criteria

# Summary

- Assess level of maturity
- Ask again “Why Co-source?”
- Co-sourcing is a partnership
- What will success look like?
- Leverage internal networks
- Reasonable control over provider
- Up to individual organisation

Discussion / Experiences  
Thank you