

The 20 Critical Questions Series

What Directors should ask about Internal Audit Service Providers

For all internal audit service providers

1. How often does your organisation consider and report on the merits of different internal audit delivery models – in-house, co-sourced, outsourced?
2. How well does the above analysis consider the cost per productive audit hour delivered, and how this rate compares against the overall ‘value-add’ of other internal audit delivery models, including quality and usefulness of output?
3. Where the internal audit function is co-sourced or outsourced, is there periodic market testing that involves a transparent tender process with well-founded selection criteria?
4. Does the contract with the service provider protect the procuring organisation by being in the procuring organisation’s contract format, and is there a clause requiring the service provider to provide the internal audit engagement work papers to the procuring organisation?
5. Is there a chief audit executive (CAE) appointed by the audit committee, preferably from within the organisation to have ‘skin in the game’, regardless of the internal audit service delivery model used?
6. Are there formal inductions when new service provider personnel commence, to get them productive and well-equipped in the shortest possible time to deliver a seamless client experience from the outset?
7. Is service provider performance assessed after every audit against key performance indicators (KPIs) defined in the contract (including feedback from management of areas audited), with the aim to identify good work, areas that could be enhanced, provide evidence to support continued use of a service provider, and flow through to KPIs reported in internal audit’s balanced scorecard report (or similar)?
8. Are service providers specifically required as part of contract arrangements to provide knowledge and skill transfer to in-house internal audit staff, together with business unit staff where possible? Is there a formal plan about how this occurs? How is the effectiveness of knowledge and skill transfer monitored and reported?
9. In addition to the service provider’s own quality process over internal audit work, is there an in-house quality process over work of the service provider, at least on a periodic basis, with a link to the KPIs mentioned in question 7 and the declaration mentioned in question 13?
10. Do internal audit service provider resources used on-the-job have the necessary subject matter expertise for the audit topic, and are they professionally qualified internal auditors, for example, Professional Members of the IIA–Australia (PMIIA or PFIIA), Certified Internal Auditors (CIA), or Certified Information Systems Auditors (CISA) specifically for ICT auditing? How are these capabilities reported to the audit committee?
11. Is the internal audit service compliance focused, or does it have an operational auditing approach – covering and specifically reporting on root cause analysis, efficiency, effectiveness, economy, ethics?
12. How is the audit committee assured the work of the service provider is designed to add value and improve the procuring organisation’s operations; that it aligns with the strategies, objectives and risks of the organisation; that it is insightful, proactive and future-focused; that it promotes organisational improvement?
13. Does the service provider perform internal audit work in accordance with the ‘International Professional Practices Framework’ including the ‘International Standards for the Professional Practice of Internal Auditing’? Does the service provider make a formal declaration about this to the audit committee, either annually, or for each audit where organisations use a panel of service providers?
14. Is the internal audit service provider denied the opportunity to provide consulting services? If not, is an independence and conflict of interest declaration required from the service provider for each instance, in advance? Is the final arbiter of whether a conflict of interest exists located in-house, for example, the chief audit executive or the audit committee chair?

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15. Was a mandatory independent external quality assessment of internal audit performed in the past five years, with internal audit standards conformance confirmed for each service provider?

For panel of co-sourced internal audit service providers (in addition to questions 1 to 15)

16. Where a panel arrangement has been established that includes two or more service providers, does the chief audit executive have a clear and effective managed process that allocates audits based on specific skills needed and past service provider performance? Is use of in-house and co-sourced internal audit resources seamless, with no difference in service performed and reporting delivered?

For outsourced internal audit service providers (in addition to questions 1 to 15)

17. Does the internal audit service provider have a documented quality assurance and improvement program conforming to requirements of the 'International Standards for the Professional Practice of Internal Auditing', and does this reflect the requirements for an independent external quality assessment of internal audit at least every five years? Are results of the quality assurance and improvement program reported to the audit committee and senior management at least annually?
18. Does the internal audit service provider make sure there is an up-to-date (a) internal audit charter (b) internal audit manual (c) quality assurance and improvement program? Are all these documents periodically presented to the audit committee for review and endorsement?
19. Are robust internal audit service provider performance measures in place consistent with the KPIs in the contract? Are they approved by, and outcomes reported to, the audit committee to prove the effectiveness of the service?
20. Does the internal audit service provider prepare an annual report showing value added over the year, systemic issues identified, and trends to better position the organisation in the future?

The killer question

What evidence does the audit committee and management receive that shows an internal audit service provider is doing a good job, providing a cost-effective service, and delivering valued outcomes; in the event of any complaints about service providers and what they deliver, does the audit committee challenge the chief audit executive on how the arrangements and performance feedback processes are being managed?