The Institute of Internal Auditors Australia

Factsheet: Internal Audit Shared Service

What is Internal Audit?

The mission of internal audit can be defined as:

To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

The definition of internal auditing is:

An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The person responsible for internal audit is:

Chief audit executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title and / or responsibilities of the chief audit executive may vary across organisations.

Source: 'International Professional Practices Framework' issued by the Institute of Internal Auditors (IIA)

What are Internal Audit Delivery Models?

There are a number of models that can be used to resource internal audit services to an organisation:

- In-house – Provided exclusively or predominately by in-house staff and managed in-house by an employee of the organisation.
- Co-sourced – Conducted by a combination of in-house staff and a sole service provider or a panel of service providers, and managed in-house by an employee of the organisation.
- Outsourced with in-house management – Provided by a sole service provider or a panel of service providers contracted to the organisation for this purpose, with internal audit actively managed in-house by an employee with knowledge and experience of internal auditing.
- Outsourced – Conducted by a service provider contracted to the organisation, with the service provider also managing the internal audit function. Management of the service provider contract is conducted in-house by an employee of the organisation who is unlikely to have knowledge and experience of internal auditing.

What is an Internal Audit Shared Service?

To add to the internal audit delivery models shown above, some jurisdictions suggest an internal audit shared service arrangement could be considered. This is generally in public sector and local government.

Some considerations may be:

- A signed agreement by all parties that is regularly reviewed that enforces the terms of the internal audit shared service to reduce the chance of personnel or financial disputes.
- A provision for mediation independent of the member organisations should there be a dispute.
- A defined notice period for when an organisation may seek to withdraw from a shared service.
- Clear and reportable performance measures (KPIs) to ensure objectives of the shared service are met.
- Clear business rules around how the shared service will operate.
- Clear business rules around chief audit executive reporting.
- The need for a professional, experienced, in-house chief audit executive.
- Shared service cost and budgeting arrangements including administrative overheads.
- Capacity for the shared service to understand different business activities of multiple organisations.
- Larger internal audit workload to manage.
- Many audit committee meetings for the chief audit executive to prepare for and attend – even if the shared service also reports to a shared audit committee, the workload is not reduced as the shared audit committee is expected to operate as a separate committee for each of the sharing organisations.
- Confidentiality provisions applicable to a participating organisation that could be breached through a shared service.
- Potential for conflict of interest through a shared service.

What about Internal Audit Shared Service Planning?

Internal audit shared service arrangements generally have one of the following types of internal audit planning:

- Option 1 – A core of the same internal audit engagements across organisations in the shared service, complemented by specific internal audit engagements of targeted higher risk areas within specific organisations.
- Option 2 – The same internal audit plan applied for internal audit engagements across the organisations involved in the shared service.

A reason often cited for an internal audit shared service arrangement is economies of scale – cost advantages from improved efficiency through increased production and lower cost. This is often achieved through Option 2. Every organisation is different and has different risks and issues. While a 'one size fits all' internal audit shared service planning approach may sound attractive, it will not provide the best internal audit service.

Additionally, it does not conform with Internal Audit Standard 2010 'Planning' which requires:

> *The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.*
>
> *Interpretation – To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organisation's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.*

What might be Advantages and Disadvantages of Internal Audit Shared Service?

Advantages	Disadvantages
› Can produce economies of scale	› Organisations have different risk profiles, so simply performing the same internal audit services in each organisation is likely to lose a risk-based internal audit planning approach – may not be auditing the right things in each organisation
› Can work if organisations sharing the internal audit service are from an aligned industry group	› Requires chief audit executive to prepare and attend many audit committee meetings which is time intensive
› Is likely to operate more effectively if there is a professional, experienced, chief audit executive	› Will likely require a wider range of skills and expertise to cover audit topics across a range of organisations
› Can build a body of knowledge that can be applied across the various organisations	› Can be dispute over which organisation will host the chief audit executive
› Can allow smaller organisations to share quality and specialist internal audit resources	› Can be dispute over the funding split across organisations
› Common audit committee governance structure can be used	› Can lead to less being spent on internal audit than should be spent
› Common internal audit methodology can be used	› Chief audit executive has multiple functional reports and multiple administrative reports
› Chief audit executive can facilitate networking and knowledge transfer amongst organisations in the shared service that would otherwise operate in a silo	› Host organisation tends to see the chief audit executive as their resource
› Benchmarking against peers in the same industry sector	› Chief audit executive performance reporting can be problematic
› There may be less internal audit administrative burden for smaller organisations which may be picked up by the host organisation	› Different audit committees may have different views on internal audit resourcing methods

It may also be possible to broaden networks and experiences – one local government host organisation brought together risk managers from the various organisations involved in the internal audit shared service to meet each other and exchange ideas – all essentially doing the same job but taking different approaches and had not previously met each other.

Acknowledgement

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Useful References

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