

Factsheet: Guest Auditors

What is a guest auditor?

When someone with specific technical knowledge may be needed for an internal audit engagement and that expertise is not available within the internal audit function, an alternative internal audit resourcing model is guest auditors.

Many internal audit functions already seek technical expertise from service provider firms when there are no in-house internal auditors with the necessary skills and knowledge for technical audit topics. Though not a widespread practice, there are internal audit functions that use in-house guest auditors from other business units within their organisation.

It should be noted that guest auditors can be used in 3rd line assurance internal auditing and also 2nd line assurance management systems auditing.

A guest auditor program can:

- › Get specialist subject matter expertise into audits to add value to internal audit engagements.
- › Help where audits have a technical component that would benefit from specific technical expertise.
- › Enhance the internal audit function credibility and reputation.

Expert or Specialist?

It is useful to work out whether you are seeking an expert or a specialist as this will influence what you are looking for and also where you look for it. It may also influence cost.

Expert

- › A person with extraordinarily deep knowledge and ability in a particular field, usually gained through research, experience or occupation in a particular area of study.
- › Will often have an academic and research base underpinning their expert knowledge.
- › May be called upon to solve a problem that other people have trouble understanding.
- › Could be called as an expert witness in legal proceedings to give opinion evidence within their field of expertise and also evidence of facts.
- › In brief, an expert guest auditor:
 - › Has superior knowledge and a high level of expertise in a pertinent field of study.
 - › Will have in-depth knowledge of the audit topic.

- › Can guide and teach others.
- › Though not a requirement when selecting an expert guest auditor, could be recognised as an expert to appear as an expert witness in legal proceedings.

Specialist

- › A person who concentrates primarily on a particular subject or activity and is highly skilled in that particular field.
- › Someone who knows a lot about a specific subject but may not necessarily have the academic and research background to go with their knowledge.
- › Not generally viewed as being in the same league as an expert.

Why have a guest auditor program?

Where an internal audit function does not have the skills and experience to audit a particular topic, it is necessary to obtain someone with the required skills and experience.

The Internal Audit Code of Ethics principles under 'Competency' states:

"Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services."

The Internal Audit Code of Ethics rules of conduct under 'Competency' requires:

Internal auditors:

- › *Shall engage only in those services for which they have the necessary knowledge, skills, and experience.*
- › *Shall perform internal audit services in accordance with the 'International Standards for the Professional Practice of Internal Auditing'.*
- › *Shall continually improve their proficiency and the effectiveness and quality of their services.*

Internal Audit Attribute Standard 1210 'Proficiency' requires that:

Internal Auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

Internal Audit Standards 1210.A1 and 1210.C1 require the chief audit executive to “obtain competent advice and assistance” if the internal audit team “lack the knowledge, skills or other competencies needed to perform all or part of the engagement”.

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

What are benefits of a guest auditor program?

A guest auditor program can have a range of benefits.

For the Guest Auditor

- › Receive structured professional development – this could be classroom and on-the-job training.
- › Develop wider knowledge of the organisation.
- › Gain deeper understanding of risk management, control and governance processes.
- › Learn new skills about internal auditing.
- › Satisfaction of knowing their expertise will contribute to a better outcome for the organisation.
- › Possibly open up future career opportunities.

For the Business Unit

- › Staff professional development and a wider perspective of the organisation.
- › Improved knowledge of audit and risk management practice.
- › Share good practices across the organisation.
- › Further develop their relationship with the internal audit function.

For the Internal Audit Function

- › Draw upon subject matter talent to achieve better audit outcomes.
- › Partnering with business areas and further develop their relationship with the business unit.
- › Guest auditors return to their business units as ambassadors for risk management, control and governance.



What might be challenges for guest auditors?

Challenges for a guest auditor program may include:

Perceptions

Business unit clients generally believe internal auditors are generalists who try to audit everything, even when they do not have the necessary skills and experience.

Scheduling

Guest auditors may not be available when the audit timing is scheduled.

Independence

Management and business unit clients may believe the guest auditor is not sufficiently independent.

Expectations

Internal audit function and business unit client expectations may not be achieved.



The issue of independence needs to be carefully considered each time a guest auditor is selected. Guest auditors cannot work on audits where a conflict of interest may exist or where they have had direct operational responsibility within the previous 12 months according to the Internal Audit Standards, though every situation should be carefully reviewed and 12 months may not be sufficient, for example if the guest auditor designed what they would be auditing.

Where will a guest auditor contribute?

A guest auditor can generally contribute at the various stages of an audit. They do not necessarily need to be involved for the whole elapsed time of the audit.

Internal Audit Planning

- › Bring their expertise to assist with planning technical components of the audit.

Risk Assessment

- › Assist in identification and evaluation of risks and their potential impact on the audit topic.

Walkthroughs

- › Participate in walkthroughs to enhance understanding of risks and controls for the audit topic.

Controls

- › Use their knowledge and experience to assist analysing and rating (a) control design adequacy (b) control operational effectiveness.

Internal Audit Reporting

- › Contribute to the internal audit report by adding their knowledge and experience of good practices.

Where to get guest auditors?

A guest auditor program is designed to fill competency gaps for specific internal audit engagements.

In-house – Some internal audit functions use in-house guest auditors from other business units for short-term assignments. Use of in-house guest auditors can be a cost-effective method for an internal audit function to obtain specific technical skills and experience to supplement in-house internal audit knowledge, subject to independence issues being addressed. Guest auditors with strong technical knowledge can assist in adding more value to internal audit work, with potential to provide a more credible and effective internal audit results for audits of technical areas.

Our observations indicate internal audit functions operating in partnership with management are the ones that are generally more respected, and where management are more likely to provide their best people as guest auditors. An advantage is that guest auditors can become ambassadors for governance, risk management and control within the organisation. To be successful, strong senior management support is required to identify talent and provide support for a guest auditor program.

Other organisations and jurisdictions – It may be possible to obtain a guest auditor from another organisation or jurisdiction. For example, a guest auditor for a clinical audit could be sought from another hospital or health service that comes under the same department of health. Or a guest auditor for an agricultural audit could be obtained from another state's department of agriculture.

Service Providers – Where an internal audit function may lack skill and experience in a specific technical area, it can be useful to procure the required expertise from a service provider firm. The trick with this method is to make sure you get a perfect fit for the technical skills you need. The procurement process should include:

- › Information on what the nominated service provider personnel have personally done that fits what is required, rather than what the firm may have done overall.
- › Providing the service provider candidate's CV to the business area where the internal audit service will occur to get their view on whether they believe it is the right person, bearing in mind the internal audit function will make the final decision.
- › Before they are engaged, arranging a technical discussion between the business area and the service provider person who would be working on the audit.
- › Agreement the service provider will provide knowledge transfer through on-the-job training with in-house internal audit staff they will be paired with.

- › Agreement the service provider expert will provide knowledge transfer through seminars or training activities to a wider organisation audience.
- › The service provider agreeing to provide potential solutions as part of the engagement where improvement opportunities may be identified.

Niche Specialist Service Providers – These are similar to service providers but usually have good expertise in a particular narrow field. The firm often concentrates on one specialist area – cyber security is a good example.

Rotation Program – Some organisations have a rotation program where selected staff spend a period of time working in internal audit, often for 2-year placements. If done well, it can be viewed as a management development opportunity for up-and-coming managers. An advantage of this approach is development of ambassadors for governance, risk management and control within the organisation. To be successful, strong senior management support is required to identify talent for a rotation program.

Likewise, secondment of internal audit staff to business areas could be considered to refresh staff experiences, broaden business knowledge, and create temporary development opportunities within the internal audit function.

A final consideration

It is important a guest auditor program is set up for success. Some internal audit functions include a structured training program for guest auditors, using an internal audit engagement case study approach to teach internal audit techniques before working on a 'live' audit. This helps the guest auditor by welcoming them into the internal audit team and providing information and tools to help them do their best work.

Useful reference

'Internal Audit in Australia', IIA-Australia

Factsheet 'Internal Audit Resourcing Models', IIA-Australia

'International Professional Practices Framework', IIA Global