

## Dear Q&A

### What might be advantages and disadvantages for having a maximum term for an internal audit service provider when there is full scope outsourcing of internal audit services to one firm?

#### Answer

This is a difficult question to answer because it depends on a range of factors:

#### What is the maximum term?

An internal audit service contract for a full scope internal audit service will generally be for a three-year term with one or more one-year extension options subject to satisfactory service provider performance. The IIA-Australia believes this is a satisfactory approach, given it can often take one year for a new service provider to understand an organisation so it can optimise its services to the organisation.

Establishing a single service provider has a number of advantages over contracting out internal audit services one review at a time, as it allows the service provider to develop an understanding of the organisation's operations that generally delivers more useful outcomes.

Some public sector jurisdictions impose a maximum term, while there are no imposed limits for corporate organisations in Australia.

#### Is there periodic market testing of internal audit services?

What can happen is that an internal audit service provider may be appointed and 10 or 20 years later is still there. The IIA-Australia suggests periodic market testing is appropriate to discover what internal audit service offerings are out there and how they compare to what you have now.

Questions to ask of service providers may include:

- › Do you use the 'International Standards for the Professional Practice of Internal Auditing' issued by the Institute of Internal Auditors?
- › Do you provide a range of internal audit service offerings rather than simply divide the available internal audit budget by the average cost of an audit?
- › Do you audit the big risks such as business operations (not just corporate activities such as finance, procurement, etc), technology, projects and business initiatives?
- › Does this include an operational auditing approach focusing on efficiency, effectiveness, economical use of resources and ethical conduct (4 E's) or does it have primarily a compliance focus?
- › Do your internal audit services seek to provide insights and advice focused on the future or is it constrained to look only at the past?
- › How will your firm provide subject matter experts for specific technical audits?
- › How will you stretch the internal audit budget further?

Periodic market testing is recommended for internal audit services to see 'what is out there', but also to demonstrate transparency and accountability. Periodic market testing helps an organisation determine that it is getting the internal audit service it needs.

The IIA-Australia has issued a paper 'The 20 Critical Questions Series – What Directors should ask about internal audit service providers': [https://iia.org.au/sf\\_docs/default-source/technical-resources/20-critical-questions/20-questions-what-directors-should-ask-about-internal-audit-service-providers.pdf?sfvrsn=2](https://iia.org.au/sf_docs/default-source/technical-resources/20-critical-questions/20-questions-what-directors-should-ask-about-internal-audit-service-providers.pdf?sfvrsn=2)

**Who is the chief audit executive (head of internal audit)?**

It is the view of the IIA-Australia that the chief audit executive should be an in-house person (someone with 'skin in the game') with at least some knowledge of internal audit practice and preferably not the service provider who is an external entity. The chief audit executive should be able to use defined criteria to assess whether the outsourced service provider is delivering a valuable internal audit service.

**How valuable is the internal audit service delivered by the outsourced service provider?**

It is good practice to formally assess service provider performance at conclusion of an audit – this should include assessments by the chief audit executive and also audit clients who received the internal audit service. A performance assessment process allows good work to be identified, and also areas where performance might be enhanced

**Has the internal audit service been subject to formal external review?**

The 'International Standards for the Professional Practice of Internal Auditing' require that every internal audit function be reviewed by a qualified, independent assessor or assessment team from outside the organisation at least once every five years. Such a review provides confidence the organisation is making the best use of its internal audit function and budget, and that any service provider is providing work of appropriate quality. A positive outcome from such a review can provide evidence to support continued use of a service provider or can prompt a discussion leading to an improved internal audit service.