The Case for Sourcing Internal Audit
Introduction

Historically focused on ensuring compliance, the internal audit (IA) function within leading organizations is moving well beyond its traditional role and becoming increasingly involved in top-level decision making, protecting the organization against risk, and improving control systems.

Originally developed as a means of assisting organizations with safeguarding corporate assets and enforcing corporate policies to preserve business value, IA is expanding to now also focus on activities that help the organization create business value (see Figure 1). Internal audit has become a highly sophisticated function—virtually a business unto itself.

Figure 1: Value Creation and Preservation Model

Source: KPMG LLP, 2008
Achieving leading IA capabilities requires a significant level of investment in skilled resources, methods, training, career paths, and technical infrastructure. Maintaining those capabilities requires a sustained level of investment in both good and challenging economic times. As a critical business operation as well as a function perceived by many to be a cost center, IA can be a prime candidate for strategic sourcing.

In a competitive economy—and particularly during an economic slowdown, when cost, efficiency, and flexibility are paramount—companies are increasingly sourcing functions outside their core competencies as a way of reducing costs, freeing up capital, achieving greater flexibility to respond to rapidly changing business conditions, and enhancing their ability to focus on what they do well. The Institute of Internal Auditors’s Global Audit Information Network (GAIN) Reports indicate that organizations are increasingly using co-sourcing arrangements: in 2008, 69 percent of respondents indicated that at least a portion of their IA plan is done through co-sourcing—a positive shift from 2005, when about 50 percent gave this response.¹

Internal audit took center stage at many public companies in recent years during compliance with section 404 of Sarbanes-Oxley (S-O), which focuses on the design and effectiveness of internal controls over financial reporting. Many IA functions were assigned a significant role in management’s internal control assessment process. These developments created new challenges and responsibilities for IA, and some companies established control groups specifically to address S-O requirements. Now that many of these companies are in year three or four of S-O compliance, they are finding that many of these S-O personnel lack traditional IA knowledge and skills, not to mention the sophisticated capabilities now needed to audit complex risk and control environments.

Moreover, some organizations see that their IA functions lack sufficient flexibility to respond to the changing business and regulatory environment and increasing stakeholder demands. These challenges are particularly problematic as audit committees look to IA for support of their efforts to expand their oversight of organizational risks, governance, financial reporting, and control frameworks.

This white paper considers various aspects of sourcing the IA function. It discusses advantages and challenges of sourcing and presents some key decision factors and questions that should be considered when an organization evaluates a provider for this vital business function. It also provides an approach to the IA sourcing decision and its implementation.

¹The Global Audit Information Network (GAIN), 2009 Annual Benchmarking Study, The Institute of Internal Auditors
The Current Environment: The Move to Sourcing

Many corporations are sharpening their focus on what they do best and assigning non-core functions to outside service firms—from information technology (IT) and telemarketing to human resources (HR) and call centers.

Strategic sourcing can give an organization immediate access to specialized resources and subject matter professionals to help quickly adjust to changing business conditions. Such flexibility can be critical in effectively dealing with a range of operational challenges—from systems security issues to channel management to procurement. Sourcing can also reduce costs and drive value through improved quality and service.

Sourcing the IA function takes on a variety of forms, each presenting its own degree of “ownership” and mix of fixed and variable costs:

- **In-house**: The IA function is developed and maintained by the organization. All costs are fixed.
- **Co-sourced**: A sourcing provider is contracted to assist the in-house team with specific IA projects, such as supply chain efficiency or IT risk management. Costs are partially fixed and partially variable.
- **Outsourced**: The entire IA function—or significant components of it, such as international IA operations—is contracted to a sourcing provider. Costs are variable.

Full outsourcing of the IA function is not common in Fortune 200 organizations, which are more likely to co-source certain areas as distinct audit projects. Outsourcing arrangements typically occur in organizations with internal audit departments of 15 or fewer full-time IA personnel. Additionally, many companies—including those with groups outside of IA that are responsible for compliance with S-O section 404—are sourcing activities such as documentation and testing assistance.

Figure 2: Key Drivers for Sourcing Internal Audit

Managing Costs
Manage HR Challenges
Ensure Independence
Leverage Provider Infrastructure
Value Preservation

Capacity Management
Access to Structured Methodologies
Access to Leading Practices
Access to Trained IA Resources

Access to Subject Matter Professionals
Access to Global Resources
Focus on High-Risk Areas
Value Creation

Source: KPMG LLP, 2008

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WHY COMPANIES CHOOSE TO SOURCE INTERNAL AUDIT

Sourcing IA offers organizations numerous advantages, both tactical and strategic. An organization may initially source IA to establish a stabilized team of skilled resources and manage costs, but find that over time as the relationship evolves it enables the organization to drive new business value. For example, identifying or creating key performance indicators (KPIs) can lead to the effective and efficient deployment of resources in a risk-based manner. Shorter audit cycles, greater global coverage, risk-based audit plans, continuous audit techniques, and exception-based reviews can create the time and cost savings that allow IA resources to increase focus on value-creation activities.

Today’s globally competitive business environment is prompting organizations to take a broader look at their business functions to improve competitiveness. As shown in Figure 2 on page 3, numerous forces drive companies to source IA.

BENEFITS OF SOURCING

An effective and efficient sourcing arrangement can enable an organization to:

Manage IA costs

At first glance, some companies dismiss IA sourcing as a viable option for reducing costs because paying a quoted hourly rate to a qualified professional services firm seems more expensive than employing IA personnel. However, when the full costs of recruiting, compensating (with full benefits), training, retaining, and terminating in-house IA personnel are considered, the potential benefits of sourcing begin to emerge. The cost savings can be significant, particularly for those organizations where IA activity tends toward “peaks and valleys,” involves extensive global travel, or experiences high turnover of IA resources.

For many companies, establishing and maintaining an in-house IA function offers few economies of scale. Available personnel may have limited knowledge and skill sets, and the costs of investing in leading-edge, risk-based IA methodologies and technology tools can be impractical when the IA function includes fewer than 15 auditors.

Tap the resources of a top provider

A sourcing provider can offer an IA function the ability to be scalable and flexible to adapt to business needs—including new acquisitions, year-end projects, emerging risks, expansion into emerging markets, S-O testing, and specialized projects. Such providers have access to trained IA and subject matter professionals who have experience providing these services to clients in similar industries around the globe.

Strategic sourcing can give an organization immediate or just-in-time access to resources that help it quickly adjust to changing business conditions and needs. Such flexibility can be critical to effectively address a range of operational challenges. Many providers have resources ranging from entry-level staff through seasoned partners who can be called on depending on the organization’s needs, budget, and timeline. Additionally, companies can take advantage of help when it is needed without having to pay for it when it is not. Downtime between audits, training, and other administrative matters is generally a cost for which the sourcing provider is responsible.
Leverage the infrastructure of the provider
In a sourcing arrangement, the major costs of developing and maintaining an IA capability—from employee training to state-of-the-art audit systems—are shifted to the provider, freeing up the organization’s capital and resources for other purposes. Over the course of several years, providers have developed strong internal audit infrastructures that allow them to be a full-scope and immediate solution to meet a company’s IA needs, which if developed in-house would take extensive capital, time, and resource investments.

Gain access to leading practices and subject matter professionals
Sourcing arrangements give companies access to professionals who can provide additional value in the audit process through their technical skills (in areas such as IT, forensics, treasury, operations risk management, financial instruments, procurement, shared services, third-party contracting, and tax) as well as industry experience and knowledge of similar-size companies, pertinent regulations, and compliance practices. Such professionals can help an IA project evolve from being finished to being valuable.

Gain access to global resources
Global companies with operations in international locations may not be able to hire or retain sufficient personnel to meet their needs. Or, the size of the operations may not justify full-time staff. A large global sourcing provider can create efficiencies by reducing travel costs, understanding the local culture, and providing local resources with appropriate language skills.

Address the human resources challenges specific to internal audit
Many in-house IA departments are having increasing difficulty in attracting and retaining personnel with appropriate financial, operational, and language skills as well as specific industry and subject matter knowledge. In addition to recruiting and employee benefits expenses, IA organizations need to invest in continuous training to keep personnel current in new and rapidly evolving developments in the internal audit profession. Without such training—which may be out of reach for smaller organizations—departmental capabilities erode and personnel perceive the limits of their professional mobility. In such situations, retaining high-quality, motivated individuals is difficult.

Gain access to leading IA methodologies
Providers can bring companies IA methodologies and supporting technologies that are risk-based, field-proven, and scalable. Many providers have invested heavily in developing global, risk-based IA methodologies that can provide high value and continuous improvement. A strong IA methodology allows auditors to dig deep into a company’s processes to identify and evaluate significant risks—including operational, reputation, and regulatory risks—that can extend well beyond the financial statements. For some companies, the expense of establishing and properly implementing a risk-based IA methodology and related technology tools can be impractical and inefficient, especially when the IA function is smaller in size.

(continued on page 8)
CASE STUDIES

1 Accessing Global Resources

A Fortune 500 consumer products company was growing rapidly, and the audit committee and management wanted to reenergize and refocus the IA function, especially in its growing international locations. Initially, the company considered hiring additional in-house IA professionals but soon realized that dozens of resources would have to be hired both nationally and globally. In addition, the company was seeking internal auditors with the skill sets and focused subject matter experience to complete reviews and assessments of key risk areas, including information technology, treasury operations, supply chain risk management, and tax.

The company sought a provider with the requisite skills, experience, and reach to support its IA requirements through an intensive request for proposal process. Given its needs, a relatively small number of global professional services firms had the capacity, resources, and network that could realistically meet audit committee and management expectations. The company ultimately chose one of the Big Four firms to assist with its IA sourcing needs.

Following completion of an initial IA risk assessment, the provider helped the company’s IA department develop and successfully execute its risk-based internal audit plan, which included reviews by subject matter professionals from the provider firm. The chosen provider quickly provided the company with access to highly skilled, experienced resources throughout the United States and from its member firms in more than 148 countries around the world—professionals with qualifications and knowledge who were not readily available for hire in the local marketplace. The local resources had a strong understanding of the business practices, issues, and risks specific to each of their home countries. Also, the provider’s professionals spoke the local language and understood the culture and local business regulations affecting the company’s unique operations.

The company continues to benefit from its IA sourcing relationship—including the provider’s extensive and global resource pool, better practice knowledge and solutions, and subject matter professionals. Internal audit sourcing also has helped the company to better manage its IA costs by turning previously fixed costs into a variable structure. The company and provider have forged a strong professional relationship and the provider’s personnel have earned the trust and respect of management and the company’s board of directors.

2 Managing Costs and Accessing Subject Matter Professionals

The corporate headquarters of a Fortune 500 manufacturing company is situated nearly two hours by car from the nearest large city. As a result of its remote location, the company struggled in recruiting and retaining top internal audit talent. Continually short on staff, the quality of internal audit’s work became unacceptable to the audit committee, senior leadership, and business units. In addition, the company’s plans for aggressive global growth over the coming five years meant that it needed a lean and highly skilled global IA department that could be flexible when the company faced changes in the business environment or wanted to undertake new initiatives.

Leaders were also interested in exploring how an outsourcing arrangement might enable them to better leverage subject matter professionals. The company performed a cost analysis—comparing existing in-house costs with the price of the preferred professional services firm—and determined that for an acceptable amount more than what they were spending internally they could source a top-quality IA department that met (and exceeded) existing needs. The CFO said, “We cannot duplicate what this [sourcing provider] can offer, and we can’t do it for much less if you consider the full long-term employment costs that we now have.”

Two professional services firms have provided from 20,000 to 40,000 hours of internal audit work for this company over the past 10 years. The current firm handles the global audits in more than 50 countries, employing numerous subject matter professionals in areas such as procurement, supply chain, information technology, contract compliance, and healthcare. These integrated teams produced excellent results for the company. The internal audits not only provided improved reviews of internal controls, but the reviews themselves also have resulted in suggestions for potential process improvements and opportunities for cash recoveries. It is not unusual for the internal audit department to recover from $1 million to $5 million per year as a result of these audits.

Recently, the chief financial officer remarked that the company could not have completed its first-year Sarbanes-Oxley requirements without the help and knowledge of its internal audit provider. “The ability to expand and put local people on the ground on a global basis is something we could not have done internally.” He made similar observations when the company turned to its IA provider for guidance on significant acquisitions.

3 Tapping the Resources and Leading Practices of a Top Provider

A Fortune 500 retail organization has partnered with a third party for assistance with completion of its annual risk assessment and internal audit plan for the past several years. The organization’s internal resources are regularly rotated into other departments, a practice that can present short- to mid-term challenges in resource availability. Given the continued evolution of IA departments, the organization does not see internal audit as a core competency and does not believe it can adequately develop methodologies, templates, and other capabilities in a cost-effective manner. The organization continues to use a third party because its leaders believe that they have seen value through:

- The participation of the provider’s subject matter professionals in the risk assessment, which has helped to develop an internal audit plan that is meaningful and useful for the organization.
- The provider’s ability to provide experienced and specialized resources when and where the organization needs them. As the company continues to rotate internal resources in and out of the internal audit department, the third party has been able to provide resources quickly and as needed for specific projects so the organization does not have to keep full-time...
equivalent individuals on staff for the entire year.

- Global reach—the provider consistently uses local resources that understand the local language and culture as well as the organization’s business.

- Continuous thought leadership and discussion of emerging trends within internal audit and within the industry—the third-party provider takes the initiative in offering the organization contacts within the industry and access to thought leadership, and it holds regular meetings with internal audit, executive management, and the audit committee.

4 Managing Costs and Strengthening Communication

A national healthcare manufacturing organization with an in-house IA function was struggling to hire and retain personnel, including a top-quality resource for the audit director position. Use of individual contractors was expensive; some contractors were billing $300,000 a year. Because of the staffing issues, the external auditor was not able to rely on IA work—its quality was questionable and the department was routinely behind in audit plan execution and report issuance.

In addition, the internal audit function was spending the majority of its time doing Sarbanes-Oxley work, and the inefficiency of its approach left no time for operational audits. As a result, the IA function lacked internal credibility and was viewed as focused solely on S-O. Its personnel could not dispel this view, lacking both the presence and communication skills to effectively work with C-level stakeholders and the audit committee.

The selected sourcing provider offered access to a broad array of financial, operational, and IT auditors as well as subject matter professionals. Provider personnel interacted effectively with the chief financial officer, the audit committee chair, and the organization’s line personnel. What’s more, the provider’s references indicated a history of internal audits that were valuable and risk-focused.

The organization realized considerable value in its sourcing investment. Specifically, for the same amount of money the organization had been spending (including the cost of hiring, relocation, bonuses, and benefits), the provider could do S-O work as well as operational audits. The organization also realized a reduction in its external audit fees because the auditor could now rely on IA’s work.

5 Leveraging the Provider’s Infrastructure

A global online retailer was growing rapidly worldwide, and the audit committee and management perceived the need to establish an IA function to evaluate and monitor risk and controls management, especially in its growing international locations. The company considered hiring several internal resources but soon realized that a limited resource pool would not have the comprehensive skill sets required (e.g., IT, forensics, supply chain risk management, tax) to complete the needed audits of key risk areas.

The organization sought a provider with the requisite skills and global reach to support all its IA requirements. The chosen provider met the need for highly skilled, experienced resources in the relevant geographic locations at a level that was not readily available for hire in the marketplace.

Following completion of the first IA risk assessment, executed to formulate a risk-based internal audit plan, the organization was pleased with its choice. The provider has demonstrated a strong understanding of business issues, risks, and needs, and it has the right expertise to attain the organization’s internal audit objectives.

6 Focusing on Core Competencies

A private consumer products company without an established IA function was purchased by a private equity firm and issued public debt. When the company became subject to Sarbanes-Oxley requirements, management realized it did not have the requisite knowledge or available internal resources to meet its compliance needs.

The company chose its provider based on the provider’s industry subject matter professionals, strength of local resources, understanding of S-O compliance, proven methodology, and the flexibility of the team to respond to the request for proposal within a few days. The company partnered with the provider to tailor an approach to S-O compliance that met the organization’s business and cultural needs without overburdening its core business. The company is also benefiting from the ability to access IA professionals only when they are needed.

Gaining Access to Leading Practices and Subject Matter Professionals

A Fortune 1000 energy company had moved to an outsourced IA model three years before selecting a new provider. Based on its experience, the organization did not consider bringing the IA function back in-house—the audit committee and senior management wanted an IA function that had both credibility and access to resources capable of addressing a broad universe of risks with relatively short notice.

In making its choice, the organization strongly considered team chemistry, industry credentials, and the availability of subject matter professionals who could not only enhance audit effectiveness but also serve as on-call advisers. A significant concern of the chief operating officer was that the company not be stuck “training” the provider team on industry-specific issues.

The organization views IA as a critical component of its risk management approach. Consequently, the provider meets weekly with the chief financial officer to discuss audit status, potential issues and concerns, and recommended changes to the audit plan. In addition to private sessions with the audit committee at each meeting, the provider’s team leader meets privately each quarter with the audit committee chair.

The provider has successfully integrated subject matter professionals into many of its audits and has consistently been rated by the organization as exceeding expectations. What’s more, the business has begun reaching out to the provider to advise the company on a number of initiatives—a key sign of internal audit’s ability to add value.
Key Sourcing Considerations

Organizations should consider sourcing when:

- IA does not have the skills or competencies to execute audits of the organization’s critical risk areas.
- IA does not have flexibility—that is, the specialized knowledge and resources—to adjust to rapidly changing business conditions and/or “peaks and valleys” in demand for IA resources.
- IA projects are constrained by personnel’s lack of specialized skills—the organization needs access to subject matter professionals with in-depth technical and analytical capabilities.
- Significant IA investment in methods, tools, training, and continuous audit techniques is required.
- The audit committee would prefer a second, independent perspective on elements of the risk management process and system of internal controls.
- IA is a cost center—it does not provide a return on investment by identifying cost savings or revenue enhancement opportunities; the quality and efficiency of its work could be improved.
- IA does not consistently attract or retain top audit talent in all disciplines or in select geographies.
- The lack of a “just-in-time” approach to IA staffing creates situations of lowered utilization and productivity as well as costly downtime.
- The organization expects IA to provide value beyond its current compliance-related and process controls-related focus.

Enhance independence

From the audit committee’s perspective, an IA sourcing provider may be able to maintain a greater degree of independence and objectivity in its oversight compared with an in-house function maintaining standard practices. In-house IA department employees may be seen as subject to management’s influence or unwilling to raise difficult issues with management or the audit committee—challenges that are generally eliminated in sourcing scenarios. Audit committees often value highly the opportunity to get a second perspective on key issues or assessments that come with a sourcing arrangement. Additionally, organizations that use IA as a training ground for rotational employees can impair independence as personnel position themselves for their next jobs.

Strengthen communication

Given their experience, established methodologies, and objectivity, IA sourcing providers can establish or enhance effective communications about organizational risks and governance with senior executives, the CEO and chief financial officer, and the audit committee. Also, because providers are generally not financially reliant on a single entity, they may be better able than an internal function to communicate IA results (especially negative results) in an unbiased manner. Finally, in some situations, in-house IA personnel may become overly comfortable with a particular area or be unduly influenced by either friendships or personality conflicts. These barriers to effective IA communication are generally removed when an outside provider is engaged.

Focus on core competencies

Major corporations are sharpening their focus on what they do best and assigning non-core functions to the outside service firms. Sourcing the IA function enables the organization to free up capital and resources for core activities and critical strategic business priorities.
Strategic Sourcing Challenges

Expectations for a sourcing arrangement may be measured on several levels. One is financial—specifically, whether cost savings and efficiencies identified by the sourcing provider are achieved. Another is performance measurement, internally and externally—namely, whether internal customer quality and satisfaction scores exceed those of the in-house IA function.

Organizations typically set additional quality standards based on the specific deliverables to be achieved by the selected provider. They need to make sure expectations are established up front and that the provider is held accountable for meeting those goals. They also need to consider how they intend to measure the added value of the sourcing arrangement and monitor its progress.

TRANSITION AND STRUCTURE OF THE INTERNAL AUDIT FUNCTION

The credibility and acceptance of a newly sourced function are critical indicators of success. Internal customer acceptance comes from teaming with the groups or functions being audited, gathering their input, listening to their opinions, and delivering results. If this process is flawed, an undercurrent of distrust or dissatisfaction may undermine the quality of work delivered. An experienced IA sourcing provider will have a multi-phased transition plan it can implement to help create a smooth and seamless transition. Management and the audit committee must feel comfortable with the pace of the transition as well as with the design of the new IA function.

KEYS TO A STRONG SOURCING ARRANGEMENT

When selecting a sourcing provider, finding a close “fit” for the organization is essential. The provider must be able to work as an insider without impairing independence while earning the trust and respect of management and the board. Cultural compatibility, industry experience, and knowledge of the organization’s business are key factors for establishing a successful relationship.

Selection of the right provider is a critical success factor. A provider should have:

- Experience in providing IA services to organizations of a similar size and industry
- Resources in the appropriate locations with the appropriate backgrounds
- Industry focus and a multidisciplinary approach
- An established ability to transfer leading-practice knowledge and information about industry practices to the organization
- Tools and methodologies
- A team that will fit into the culture of the organization
- A seamless transition approach

Key Sourcing Considerations (continued)

Organizations should consider sourcing when:

- Given the organization’s goals and objectives, IA is not an area in which it intends to develop a core competency.
- The organization does not want to maintain the fixed costs or invest in the resources necessary to achieve a high-quality, in-house IA capability.
- Corporate culture encourages sourcing of non-core business operations.
- IA is used as a training ground for rotational employees, with the objective of exposing them to better practice methods, tools, training, and processes.
- The audit committee desires expanded levels of assurance across the governance, risk, and compliance landscape or requires expanded resource capability.
- Demands on IA include providing support to special investigations, which requires skills in fraud analytics, assessment, and investigation.
Potential Audit Committee Questions

Audit committees typically pose a number of key questions to their executive leadership teams when evaluating the in-house IA function and considering IA sourcing. These questions may include:

• What is the state of the current IA capability?
• Do the IA plan and the skills of our auditors align with our key risks?
• Does IA currently have the expertise and resources to meet the needs of the organization’s businesses?
• Can the IA function maintain its effectiveness during periods of rapid change?
• What are the financial and strategic advantages of sourcing our IA function?
• Why have other organizations sourced part or all of their IA functions?
• How would outsourcing affect fixed costs?
• Can specific functions within IA be outsourced (e.g., IT internal audit)?
• If we need to downsize, would cuts in IA staffing prevent the function from effectively executing critical components of the IA plan?
• Should we be leveraging the investments made by global Big Four sourcing firms that focus on developing IA methodologies, continuous audit techniques, and tools?
• Should we be leveraging the knowledge and experience that global Big Four sourcing firms have from working with other companies in our industry to increase overall value of the IA function?
• Does IA have the subject matter experience and global footprint to address critical and emerging market risks?

An Approach to Sourcing

Establishing a sourcing arrangement calls for a phased approach, as depicted in Figure 3 and described below.

PLAN/ASSESS

During the first phase, the organization would evaluate its IA function and identify its intent for sourcing. The organization should:

• Assess current resources and skill sets
• Review key sourcing considerations (see sidebars, pages 8 and 9)
• Develop a request for information or request for proposal
• Identify providers to be included in the proposal process

SELECT

When selecting a sourcing provider, the organization needs to ensure that it makes a choice that provides value overall and is a close fit on a variety of levels. Most organizations establish decision matrices and scorecards that evaluate providers in categories based on their needs. These typically include:

• Cultural compatibility
• Experience in internal audit sourcing with companies in a similar industry/knowledge of the business
• Use of a flexible and effective risk-based internal audit approach
• Access to resources with specialized skills and the right experience
• Thought leadership and knowledge-sharing capabilities in areas such as the evolving role of IA, IA’s role in risk management, connectivity to the audit committee, integrated assurance, better practices, and approaches to internal auditing
• Global reach

IMPLEMENT

Internal acceptance of the sourcing relationship is a critical component of its success. An experienced sourcing provider will implement a multi-phased plan to engender acceptance and help create a smooth and seamless transition—steps that are critical to a successful relationship. The provider should:

• Spend time up front to learn about the organization and its culture, its current IA approach, and its internal audit resources
• Assess and identify opportunities to enhance the risk assessment process and IA methodology being deployed
• Establish a timeline and project plan for transition and implementation of guidelines, standards, and protocols
• Understand the organization’s existing practices, including its IA planning process, audit communication protocols, relationships with external auditors and the audit committee, work-paper standards, and reporting requirements
• Understand reporting responsibilities and expectations related to management, executive management, and the audit committee; escalation procedures; issue tracking and resolution; and coordination with external auditors

**MONITOR/REPORT**
The management sponsor and audit committee should have frequent and established meetings with the sourcing provider. The meetings with the management sponsor should include discussion of:

• Status of the IA plan
• Results of recently completed audits
• Planning, scope, and budget of IA projects
• Quarterly updates and discussion of emerging industry issues and risks
• Issue tracking and resolution
• Auditee satisfaction and cooperation

Periodic meetings with and updates to the audit committee are also critical. These meetings would include:

• Reporting on audit plan status, summary of significant audit-related issues, report ratings, trends in risk and control compliance, regulatory examination summaries, and the evolution of risk management practices
• Emerging risks and alignment of the internal audit plan with significant risks
• Quarterly updates and discussion of emerging industry issues
  • Annual discussion of the organization’s risk profile and internal control system based on a continuous risk assessment, results of internal audits, and leveraging of all compliance/monitoring group inputs to formulate an integrated assurance perspective
  • Annual review and discussion of the sourcing provider’s performance and results

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Source: KPMG LLP, 2008
Conclusion

The roles and responsibilities of IA department professionals are rapidly evolving and transforming. Fully outsourcing—or co-sourcing elements of—an internal audit function can help an organization enhance the value derived from IA and allow it to focus on its core competencies. Planned, implemented, and monitored correctly, sourcing IA can expand capabilities, increase flexibility and quality, and reduce overall internal audit costs to an organization.
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