One size does not fit all: Scaling internal audit to fit your company

Prepared by:
Corey Saunders, Partner, Risk Advisory Services, RSM US LLP
corey.saunders@rsmus.com, +1 206 341 8052

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When leveraged in the right ways, internal audit becomes a critical tool in your company’s risk management portfolio. It can be customized to fit the needs of almost any company. Over the years a variety of compliance-focused requirements, combined with increased economic pressures, have forced the need for internal audit into the limelight.

A proactive internal audit function can add value far beyond basic internal control and policy compliance, driving broad improvement to the control environment by providing education to management, becoming embedded within operational improvement processes enterprise-wide and more.

Many internal audit functions are also improving nontraditional areas, including supporting integration of newly acquired entities’ activities, serving as a conduit to break down internal silos and improving processes through data and process analytics.

Tailoring the internal audit function

In recent years, businesses and their boards have discussed the tailoring of enterprise risk management (ERM) programs; however, in certain instances, the same model can be used for internal audit. The concept at hand is that the function doesn’t have to fit the traditional mold. In other words, a company’s size and risk profile may not warrant a full-time internal audit executive and staff, the cost of which in many cases can be a deterrent to establishing an internal audit presence.
In these situations, feasible alternatives may exist. For instance, certain attributes can be translated from the Attribute and Performance Standards of the Institute of Internal Auditors’ (IIA) Professional Practice Framework. These can help a company focus on the substance of risk management principles, rather than simply adding headcount to build a traditional internal audit department that may not necessarily be aligned or the best fit with the organization’s risk profile and strategic plan.

Practically speaking, sometimes a one-person audit shop can fit the bill quite nicely. In fact, a smaller shop can be nimble and quick to respond to the ever-changing business environment. Marketplace volatility, the lightning-fast pace of technological innovation and the opening of previously untapped markets through globalization each drive risk into an organization. Internal audit adds value in these areas, and many others, and can truly enhance the internal perception of the function.

If an internal audit shop reacts nimbly while also anticipating issues, it can position itself as an effective change agent. The function can also serve a wider oversight role, and provide knowledge and input regarding technology and other critical, nuanced areas, such as security and privacy, licensee and royalty auditing, fraud risk assessment and fraud investigations, and others.

All of the benefits notwithstanding, there are challenges. For example, any one-person audit shop requires your company to hire and retain someone who is experienced enough to know how to perform the internal audit function on their own. Beyond that, experienced practitioners who are willing to both set strategy and execute tactically in the trenches, day after day, month after month, are few and far between.

Another challenge in today’s dynamic and ever-changing business climate is that many specialized skills are needed in order to effectively respond to emerging risks. In addition to previously mentioned nuanced flavors of risk, areas such as regulatory compliance monitoring and global project management present internal audit concerns.

A common strategy used in times past includes deploying a part-time financial executive as an internal auditor. Today, however, most companies find it nearly impossible to task a controller or higher-level financial manager with running an internal audit function in addition to their principal day-to-day responsibilities. These added responsibilities are especially difficult, considering modern-day post-Sarbanes-Oxley independence implications and the many hats finance and accounting managers are already wearing.

One potential solution that is often utilized by companies both large and small is the concept of strategic sourcing. This involves partnering with one or more service providers with deep internal audit and related risk management experience to provide the support which management needs, but may not have access to internally. Strategic sourcing allows an organization to maintain a single internal point of contact to manage the internal audit function, possibly even a part-time employee. The sourcing partner provides experience needed to assess and help set strategies to address risk, design an audit plan and the manpower to execute audits against that plan.

**Case study**

RSM has been serving as the strategic sourcing partner for a $2 billion multinational diversified corporation. The company began its enterprise risk efforts by hiring a corporate risk manager who was tasked with implementing a formal enterprise risk management program.

His first step was to perform an enterprise risk assessment, which he did not attempt to do by himself; rather, he hired another firm with experience in risk mitigation. Among the recommendations resulting from that exercise was the creation of an internal audit function.

When the corporate risk manager realized he did not have the internal capacity or experience to adequately address the demands upon an internal audit function, he concluded that strategic sourcing would provide the most flexibility and utility. In this case, the strategic sourcing option would provide the requisite expertise needed to not only initiate the internal audit function, but also address—on an ongoing basis—some of the more specialized risk areas facing the organization.

As vice president over corporate risk management, our chief point of contact wears many other hats within this organization, which is made possible by leveraging a strategic sourcing partner to fulfill the internal auditor role.

**The benefits of strategic sourcing**

Strategic sourcing works best with active boards and audit committees, and when the organization’s management team has a healthy respect for the upkeep of the control environment. Whether technology skills, foreign language capabilities, nuanced business process knowledge or any of the other myriad of needs that challenge internal audit functions, strategic partnering can be a great solution.

Strategic partnering is also frequently accomplished at a lower-than-expected cost, thanks to: shifting to a variable rather than fixed, cost model; improved management of turnover; virtual elimination of downtime; and the ability to leverage the strategic partner’s investments in training, knowledge and thought leadership development and often deep global relationships.

Challenges persist with any of these models, when the internal audit function is underrepresented within the organization, and thereby is not afforded a seat at the right tables within the company. This can be overcome as the internal audit function drives more collaboration across the organization, and as its mandate is both communicated and supported by upper management, regardless of the shape the function takes. And often when the right strategic sourcing partner is working within the organization, the mandate is reinforced when upper management recognizes the level of expertise and specialized understanding that is consistently exemplified over time.
Another benefit inherent in the strategic sourcing model is that it puts the power of selection into the hands of the stakeholders. Overcoming challenges in the melding of potentially differing cultures between your organization and that of your strategic sourcing partner can be managed and sometimes mitigated through an effective procurement process.

Through the process, you have the ability to shop for the provider that best matches your culture, your mission and your core values, and which has the most compelling selection of specialty experience to fit your needs. Firms that perform strategic partnering as a core competency are tested and efficient in the activities that drive success in an internal audit shop. They know how to team with the right levels within the organization to achieve strategic objectives and drive cost savings through optimized cost variability.

When an internal audit function is operating in a scaled fashion, opportunities may also exist to involve it in other areas of risk management within the organization. These include monitoring and responding to whistle-blower calls, facilitating a similarly scaled ERM program and participating as the risk management representative on enterprise-wide project teams.

Internal audit is a flexible function that does not need to conform to traditional stereotypes. In fact, it performs efficiently and protects your organization more effectively when it is properly scaled to fit your specific needs. Risk-averse management teams have many options to enhance their risk management environment, and internal audit implementation can increase the strategic value of your investments many times over.