



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

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If leveraged in the right ways, internal audit can be a critical tool in your company's risk management portfolio. Surprising to some, it can be customized to fit the needs of almost any company. A proposed Nasdaq rule requiring listed businesses to implement and maintain internal audit processes was withdrawn earlier this year, but it forced dialogue around the necessity of properly scaling the function.

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 integrating newly acquired

entities' activity, 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, 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 Institute of Internal Auditors' (IIA) Professional Practice Standards, from both the Attribute and the Performance sets of Standards. 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 (and the associated cost that typically comes along with it).

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 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 serve a wider oversight role, and provide knowledge and input regarding technology and other critical nuanced areas, such as licensee and royalty auditing, construction cost recovery, security and privacy 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 is implementing a part-time financial executive as 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.

One potential solution that is gaining ground with companies both large and small is the concept of strategic sourcing. This involves partnering with a service provider with deep internal audit and related risk management experience to provide the support 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 was recently appointed as the strategic sourcing partner for a large, diversified Alaskan Native Corporation. The company began its efforts to address enterprise risk by hiring a corporate risk manager who was tasked with implementing a formal ERM 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 and risk mitigation. Among the recommendations resulting from that exercise was the creation of an internal audit function.

Realizing he did not have the internal capacity or experience to adequately address the demands upon an internal audit function within a \$1.7 billion globally diversified organization, he concluded that strategic sourcing would provide the most flexibility and, in this case, the requisite expertise to not only set up the internal audit function, but also address some of the more specialized risk areas they face as an organization.

As corporate risk manager, our chief point of contact wears many other hats within his 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.

Another difficulty is the melding of potentially differing cultures between your organization and that of your strategic sourcing partner. This is where the power of selection comes in—the ability to shop for the provider that best matches your culture, 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.

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