**Introduction**

The Global Internal Audit Standards, 2024 (GIAS) states:

**‘The Standards apply to any individual or function that provides internal audit services, whether an organization employs internal auditors directly, contracts them through an external service provider, or both.’**

This means that regardless of the resource models used for internal audit services, the GIAS applies to all. In addition, the chief audit executive (CAE) is ‘**accountable for the internal audit function’s implementation of and conformance with all principles and standards’** with every internal auditor also being responsible for conformance with the principles and standards which relate to their role.

The GIAS defines outsourcing and co-sourcing in its glossary but does not provide any great detail for either of these and there is no inclusion of outsourcing or co-sourcing within the mandated standards or essential conditions. Outsourcing is highlighted in the Considerations for Implementation in relation to challenges in resourcing the internal audit function from within the organisation itself. The Glossary defines outsourcing as:

**‘Contracting with an independent external provider of internal audit services. Fully outsourcing a function refers to contracting the entire internal audit function, and partially outsourcing (also called “co-sourcing”) indicates that only a portion of the services are outsourced.’**

This guidance will look at how the accountability and responsibility plays out in the different resource models that are in place for many internal audit functions.

**What resourcing models are there in practice?**

In practice resource models are not as straight forward as the GIAS definitions imply and the three defined (in-house, outsource and co-sourced) can be extended to seven in the UK & Ireland. The different models can be used for a variety of reasons, not least of which are in the relation to the complexity, size, location and sector/industry of the organisation.

1. **In-house Model** – all of the internal audit services are provided by employees of the organisation in a dedicated internal audit function. This may also incorporate secondment / guest auditor programmes and similar arrangements using employees from other areas of the organisation.
2. **Fully Outsourced** – this means that all of the internal audit services are provided by a separate organisation with an independent legal identity. A typical example is a professional services firm. In this instance all internal audit roles, including the CAE, are filled by employees of the external organisation. Oversight, however, needs to be maintained over the delivery of the contract and this may sit within a second line function such as Contract Management or by a governance related role, such as the Company Secretary or equivalent.
3. **Shared Service Model (aka Partnership Model)**– this is very similar to the Fully Outsourced Model, but in this instance the recipients of the internal audit services have a legal interest in the shared service organisation. The organisations which the shared service model delivers internal audit services to are typically restricted to those who have a legal interest in the shared service, but some do provide to others as well. It should be noted that the CAE under this model can also be the same as that for the Outsourced Internal Audit Plan Delivery below.
4. **CAE and internal audit team divide** – here the CAE is an employee of the organisation, but all of the assurance on the internal audit plan is delivered by an external organisation, such as a professional services firm. Therefore, accountability resides with the in-house CAE for Domains I, III and IV, but Domain V would sit with the external internal audit organisation. Domain II would be split. These responsibilities would be explained in the contract/SLA. There are also rare occasions where the CAE role itself is outsourced to an external firm but the internal audit team remains in-house. In such instances the accountability and responsibility remain with the relevant roles.
5. **Co-source model** – here typically a subject matter expert will be brought in to complete a specific internal audit engagement, typically as the lead.
6. **Co-working Model** – in these arrangements the internal auditors from an in-house team and from an external internal audit provider will work together on a specific internal audit piece of work.
7. **Hybrid Model** – many organisations will use a hybrid model where the best approach is used for each specific internal audit on the plan. For example, all of the IT audits may be outsourced, but the finance audits are co-sourced, with the remainder of the internal audits on the plan being conducted by the in-house team.

As an added complexity for larger and multinational organisations a ‘group’ structure to internal audit itself may be in place, mirroring the group structure of the organisation. In these structures there may be geographic region specific audit committees, chief audit executives and internal audit teams, which are overlaid with a group level audit committee, group chief audit executive and group internal audit team. Each of these may adopt a different resource model from the above seven, but often the group level audit committee, CAE and internal audit team are the primary lead for the internal audit service.

**Benefits of different resourcing models**

Ultimately, the resourcing model that needs to be used is the one that optimises the delivery of the internal audit services. Very often different resourcing models are used to address specific challenges in the organisation and fall into a number of areas:

* Knowledge, skills, competencies and behaviours (Domain II – Ethics and Professionalism and Standard 10.2 – Human Resources Management). For example, using a subject matter expert from another department or a professional service firm to ensure that the engagement provides sufficient challenge.
* Internal audit’s mandate and responsibilities as supported by the board (aka audit committee in many UK and Irish organisations1) and senior management (Principle 6 – Authorised by the Board). For example, where an organisation is subject to the Official Secrets Act then an inhouse model may well be more appropriate.
* Level of independence and objectivity required of the internal audit function (Domain II – Ethics and Professionalism and Principle 7 – Positioned Independently). For example, there is a perception that an external provider of internal audit may be more independent than an in-house model, which means that the assurance provided becomes more credible, or visa-versa.
* Quality of internal audit services required (Principle 8 – Overseen by the Board and Principle 12 – Enhance Quality). For example, a poor performing inhouse internal audit team may move to an outsource model to take advantage of instant professional practices that the model can bring. Or the audit committee may not be satisfied with the level of service provided by an out-source provider and there the service moves to an in-house model.

1From this point the term audit committee will be used instead of board, unless it is a quotation from the Global Internal Audit Standards, 2024.

* Financial position of the organisation (Standard 10.1 – Financial Resource Management). For example, there may be more financial resources available to support growth in the inhouse team, or to provide additional expertise from outside.
* Technology of the organisation (Standard 10.3 – Technological Resources). For example, in a technology driven organisation data analytics software may be easier to implement and therefore an inhouse team could be used.
* Risk maturity of the organisation (Standard 9.1 – Understanding Governance, Risk Management and Control Processes). For example, where the maturity is low an in-house based model may be able to support the development of a risk management culture better than an outsource model, due to their continuing presence.
* Internal Audit Methodology needed (Standard 9.3 – Methodologies). For example, methodologies of consultancy vs assurance and those providing advice and foresight may differ depending on the risk maturity of the organisation or expectations of the audit committee and internal audit stakeholders.
* Internal audit plan coverage required (Standard 9.4 – Internal Audit Plan). For example, a global organisation may need to outsource part of the internal audit engagement delivery to ensure that local knowledge and understanding is used in the different regions. For designing work programs and evaluating findings.
* Availability and reliability of other assurance provision (Standard 9.5 – Coordination and Reliance). For example, where there is a lack of other assurance providers which can be relied upon, then the amount of assurance to be provided by internal audit will be more significant. This may mean resources need to come from multiple sources to ensure that it can all be managed and delivered.

These benefits and challenges are however not operating in silo, as many are interlinked. For example, an organisation operating in multiple physical jurisdictions will impact on many of the above, such as availability of expertise, financial budgets for travel expenses and the different risk maturities/languages/legal requirements/ cultures of the organisation in different parts of the world.

It is the CAE’s role to determine and propose the right resource model to the audit committee in order for internal audit to meet Domain I – Purpose of Internal Auditing. This may not be a static decision, and as part of the Internal Audit Strategy the CAE may determine with the audit committee and senior management that a change in the resourcing model is needed to align with the future assurance needs of the organisation.

**Managing accountability and responsibility**

The over-riding approach to allocating accountability and responsibility has to meet the statements from the Fundamentals of the Global Internal Audit Standards, i.e.

1. the CAE is accountable for conformance with the whole of GIAS.
2. internal auditors are responsible for their conformance within their role.

Therefore, where these roles sit, inside or outside of the organisation, often drives the approach.

CAEs are typically either inhouse, outsourced or provided through a shared service model. In all instances they are accountable for conformance. For an in-house CAE this should be documented within the Role Description. However, for an outsourced or shared service model, this needs to be clearly articulated in the contract/service level agreement to enable the client organisation to monitor this. The audit committee under Principle 8 – Overseen by the Board, is required to oversee the quality of the internal audit service and, therefore, without such monitoring being in place they would not be able to fulfil their essential conditions.

When turning to internal auditors their responsibility is to conform with the aspects related to their role. This role may well not change as a result of the resourcing model, however who determines the methodologies and process to follow will. For the inhouse and fully outsourced / shared service models, where the CAE and internal auditors work together in the same organisation this is much easier to identify and therefore achieve. However, where the two roles are in different organisations this can present a challenge of working together cohesively as there is a lack of understanding of each other’s processes and practices.

The key question for the internal auditor is – who dictates the methodology that needs to be followed for this piece of work? Who owns the planning, fieldwork, quality assurance, supervision, working papers and the terms of reference and reports being produced? Who performs the follow up and how can past internal audits be accessed? The answers may not be their employing organisation and in the more complex resourcing models the internal auditor needs to ensure they are clear so that they can fulfil their responsibility of conformance and performance with GIAS.

As there are common features of the different resourcing models, the following focuses on outsource and inhouse – the two extremes – as the other models seen in practice are variations of the two.

1. **Outsourced Internal Audit Plan –** As the internal auditor works in an organisation which is delivering the full or a section of the internal audit plan, then typically the assurance methodologies, technologies etc. are determined by the outsource organisation. Client organisations may request variations to assist with their way of working which would be documented in the contract/SLA, but this is essentially determined by the professional service firm. Therefore, it is incumbent on the professional service firm to ensure that the methodologies conform to GIAS and this is included in each contract/service level agreement with the client organisations.
2. **Co-source model –** This can be trickier to determine as there are varying degrees of co-sourcing. The key advice here is to identify who is taking the lead on the individual piece of assurance, which should be documented in the contract/SLA, – the inhouse internal audit team or the co-source firm. Typically, who the lead is, determines whose methodology is being followed. For example:
   1. Where the external firm is taking the lead, for example they have offices at the various geographic locations enabling the external firm to cover all the offices needed as part of sample testing. The external firm would use their methodology and those within the organisation’s own in-house internal audit team would work to their methodologies. This does not mean that the inhouse internal auditors have no responsibility – it means that they need to ensure that they raise any concerns over the methodology if they feel it does not conform, just as the internal auditors in the external firm.
   2. Similarly, if the inhouse team is taking the lead, for example with the co-source firm providing advice at the scoping, work programme development and finding stages, with no testing, then the roles would be flipped. Therefore, the methodology of the inhouse team would be the most appropriate to use, and the co-source internal auditors would again need to raise concerns over that methodology if they felt it did not conform, depending upon the contract. However, if the co-source is a subject matter expert and not an internal auditor then they would not have this responsibility around conformance with the GIAS.

There are of course always going to be individual arrangements. For example, for an outsourced engagement, the in-house CAE may require the engagement report to be in the in-house format and style rather than the professional service firms. So, it is really important that as part of agreeing the resourcing model arrangements that clarity over which processes and templates are to be used is established and responsibilities for identifying where these are not followed is agreed. This could well be included in the service level agreement, if not the overarching contract.

**Audit Committee’s Role**

One final area to consider is the role of the audit committee in relation to conformance and performance with the Standards. The Essential Conditions explain that the audit committee needs to ensure that the internal audit service is being performed to a good standard in order to meet the assurance needs of the organisation. The key area where the audit committee is involved in conformance with the GIAS, is in the External Quality Assessment (EQA) (Standard 8.4). Here the Essential Conditions state that the audit committee must discuss and approve the plans for the EQA including the scope and frequency but also receive the ‘**complete results’** and approve and monitor the CAE’s action plan to ‘**address identified deficiencies and opportunities for improvement**’. Therefore, while not accountable for conformance with GIAS, they are responsible for meeting the essential conditions relevant to their role, which includes the EQA.

As the audit committee oversees the EQA, they need to ensure that all those involved in providing internal audit services are covered by the EQA regardless of the resourcing model being used. This means that where any element is outsourced, co-sourced or similar that this is pulled into the testing. Boards (aka audit committees) need to remember that the EQA is done with the organisation receiving the internal audit assurance at its centre, not the internal audit provider.

Lastly, as the audit committee appoints the CAE and the outsource, co-sourced or shared service firms, it is important that as part of the recruitment and/or tendering/bid process, that conformance with GIAS is built into the assessments that determine selection. Without this the audit committee will not be able to make an informed decision that the individual or organisation selected is well placed to conform and thereby provide the assurance service needed by the organisation.

**Conclusion**

The resourcing of internal audit is a complex issue for many, with different solutions being used to ensure that the most effective internal audit service is being delivered to meet the assurance needs of the organisation. The resource model is not static, either, and needs to flex to suit the future requirements and therefore needs to be considered as part of the development, approval and regular review of the internal audit strategy. Regardless of the resource model the Global Internal Audit Standards, 2024, need to be met and understanding where accountabilities and responsibilities lie is key to ensure this.