

Resources of Internal Audit, Internal Audit Outsourcing and Competences of Internal Auditors

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Abstract

The efficiency of the internal audit function is significantly influenced by internal audit resources, internal audit outsourcing, and internal audit competencies. Resources include the funding and personnel responsible with conducting internal audits. For the internal audit function to successfully carry out its duties, the risk management, control, and governance practises of the business must be assessed objectively. The process of contracting with an outside party to perform all or a portion of the internal audit function is known as internal audit outsourcing. Businesses might choose to do this for a number of reasons, such as a lack of internal resources or expertise, and it might be a good financial choice. However, the external company or individual must have the knowledge and skills required to carry out the internal audit position successfully. The skills, expertise, and knowledge of internal audit staff members make up internal auditors' competences. In addition to the technical competence required to perform their job, internal auditors also need to understand the relevant laws, regulations, and industry standards. They should also be capable of critical thinking, good communication, and complicated information analysis. The efficiency of the internal audit function is significantly influenced by internal audit resources, internal audit outsourcing, and internal audit competencies. The internal audit function may be able to guarantee that it can provide an impartial and efficient examination of the company's risk management, control, and governance systems by making sure it has enough resources, qualified personnel, and the correct kind of outsourcing.

Keywords: *Internal Audit, Resources of Internal Audit, Outsourcing of Internal Audit, Internal Auditors' Competences.*

Introduction

Internal audit resources are the people, funds, and equipment needed to complete an internal audit. Internal audit staff, funding for employee salaries and benefits, and audit software and gear are a few examples of these resources. The efficacy of internal auditors can be improved by altering how people perceive their position within the organisation (Arena and Azzone 2009). Adequate resources are needed to guarantee

that internal audits are completed successfully and effectively. Internal auditors evaluate the efficiency of internal controls, pinpoint areas that need improvement, and offer management advice. Although internal auditor expertise is crucial, most businesses prioritise internal audit activities in order to comply with requirements rather than considering the resources, training, education, and qualifications of auditors (Elmghamez and Ntim 2016). Internal auditors perform a range of auditing tasks for the company (Cohen and Sayag 2010). They also guarantee the accuracy and dependability of the organization's entire financial reporting. Utilizing a corporation or person from outside to conduct internal audits is known as internal audit outsourcing. The CAE and IA employees as well as the IA resources determine how successfully the IA performs (Lenz and Hahn 2015). There are several reasons to do this, such as to acquire specialised knowledge or to fill a personnel gap for internal audit. According to an external auditor, an external internal audit team is superior than an internal internal audit team in terms of dependability because the latter is more knowledgeable and objective (Davidson et al. 2013; Ahlawat and Lowe 2004). But when the outsourced team provides other services, like tax and consulting services, this reliance is diminished (Desai et al. 2011). Businesses can help customers comply with regulations and standards by outsourcing internal audit in a cost-effective manner. Outsourcing routine IA tasks degrades IA independence and quality even while it promotes the auditor's independence and objectivity Abbott et al.; (2007); (Dellai and Omri, 2016); Selim and Yiannakas (2000). Organizations can identify and assess potential risks with the use of internal audit, and then create plans to reduce or manage those risks. By detecting inefficiencies and implementing internal audit improvement recommendations, businesses can save costs and increase productivity. Internal auditors are equipped with the abilities, expertise, and understanding required to carry out an efficient internal audit. A few examples include expertise with internal audit best practises, knowledge of accounting and financial principles, and knowledge about the organisation and its industry. In order to effectively communicate and interact with management and the audit committee, internal auditors must also have strong interpersonal and communication skills. Enhancing control and governance: Internal audit provides assurance that an organization's governance and control systems are effective as well as opportunities for improvement. Internal audit can offer the data management needs to make wise judgements about the operations and strategy of the business. Organizations can avoid financial loss and reputational harm by utilising internal audit to guarantee compliance with relevant laws and regulations. Internal audit functions should also be performed by experts who possess the requisite certifications, such as the CIA, CRMA, CGAP, CPA, and other pertinent credentials. Internal audit functions can rest easy knowing that their staff members are competent to complete their tasks and have the requisite level of experience, knowledge, and skills. Internal auditing can show how committed a company is to accountability and transparency, which can assist stakeholders have faith in the organisation.

Aim of the Study

The purpose of this paper is to present the resources of internal audit, internal audit outsourcing and competences of internal auditors.

Methodology

Numerous documents have been reviewed by the researchers. Secondary data and desk-based research method were used to prepare this article.

Internal Auditors' Competences

Internal auditors' efficiency is dependent on their expertise (Alzeban and Gwilliam 2014; Ta and Doan 2022; Al-Twajjry et al. 2003; Dellai and Omri 2016; George et al. 2015). Internal auditors must follow a set of guidelines defined in internal auditing standards in order to carry out their specific responsibilities (The Institute of Internal Auditors 2017). Internal auditors must possess the abilities, knowledge, and other qualities required to carry out their duties proficiently and with the required level of care (Endaya and Hanefah 2013). An experienced auditor is better equipped to do audits, offer guidance on how to enhance the internal control system, make informed recommendations based on his prior experience, and handle challenging circumstances and arguments (Arena and Azzone 2009).

To effectively perform their duties, internal auditors are required to have a wide variety of competencies. These include:

1. Technical knowledge: Internal auditors should have a good understanding of accounting principles, financial reporting, and auditing standards. They should also be familiar with the laws and regulations that apply to the organization and its industry.
2. Risk management: Internal auditors should have knowledge of risk management concepts and be able to identify and evaluate potential risks to the organization.
3. Governance and control: Internal auditors should have knowledge of governance and control processes, and be able to assess their effectiveness.
4. Communication and interpersonal skills: Internal auditors should be able to communicate effectively with management and other stakeholders, and be able to build strong working relationships.
5. Analytical skills: Internal auditors should be able to analyze complex data and information, and make logical conclusions.
6. Business acumen: Internal auditors should have a good understanding of the organization's business operations, strategies and objectives.
7. Ethical standards: Internal auditors should have a commitment to integrity and objectivity and be familiar with the ethical principles of internal auditing.
8. Continual Professional Development: Internal auditors should keep themselves updated with the latest developments in their field.

To find the most efficient manner to conduct audit engagements, internal auditors evaluate the audit engagement's objectives and needs (The Institute of Internal Auditors 2019). It is extremely important to hire internal auditors who have experience, skill, and knowledge of different processes and systems. Additionally, it is crucial to keep improving these auditors' abilities (Mihret and Yismaw 2007). For internal auditing to be successful, internal auditors must be hired and trained (Al-Twajjry et al. 2003).

Internal Audit Resources

Some research correlated internal auditor competencies with IA resources (Arena and Azzone 2009; Roussy et al. 2020); George et al. 2015; Bednarek 2018; Dellai and Omri 2016; Mihret and Yismaw 2007; Cohen and Sayag 2010; Ahmad et al. 2009; Lenz and Hahn 2015; while other studies linked IA resources with outsourcing of the IA (Soh and Martinov-Bennie 2011; Sharma and Subramaniam 2005; Dellai and Omri 2016; Coram et al. 2008). Specialists with the necessary training were needed for IA work, and staff workers needed the necessary qualifications, education, and training (Cohen and Sayag 2010; Al-Twaijry et al. 2003).

For effective performance of their duties, internal auditors have access to a number of resources. Some of these include:

1. Standards: Internal auditors should be familiar with the International Standards for the Professional Practice of Internal Auditing (Standards), which provide guidance on the conduct of internal audits.
2. Professional associations: Internal auditors can join professional associations, such as The Institute of Internal Auditors (IIA), which provide training, networking opportunities, and other resources.
3. Conferences and seminars: Internal auditors can attend conferences and seminars to stay current with the latest developments in the field and to network with other internal auditors.
4. Research and publications: Internal auditors can access research and publications on various topics related to internal auditing, such as risk management, governance, and control.
5. Software and tools: Internal auditors can use software and tools to assist them in their work, such as audit management software, data analytics tools, and continuous auditing tools.
6. Mentors: Internal auditors can seek guidance and mentorship from more experienced internal auditors, to gain knowledge and skills.
7. Internal audit department: Internal auditors should have access to all necessary resources within the internal audit department such as team, budget, technology, and training.

Internal auditors must possess extra-specialized abilities including judgement, adaptability, listening, and character strength in addition to a high level of operational expertise specific to the organisation (Roussy et al.2020). On the other hand, IA outsourcing increases the IA's objectivity and independence while giving access to seasoned professionals with specific skills (Dellai and Omri 2016). Internal auditors' competence and IA outsourcing are used in this study as characteristics of IA resources because they were the two main elements that shaped IA resources.

Internal Audit Outsourcing

Independent contractors or a company's internal staff may carry out IA (Dellai and Omri 2016; Turetken et al. 2019). According to previous studies, outsourcing IA has both

advantages and cons for IA effectiveness. Outsourcing the IA lowers the cost of recruiting and educating the internal team, enabling the expansion of a workforce with specialised skills. However, external internal auditors struggle to get the information they require and spot critical faults because of their limited understanding of the organization's environment and culture. The auditee also puts up a fight against them (Dellai and Omri 2016). Despite the fact that outsourced IA increases IA efficacy and boosts organisation performance by lowering risks and operating expenses (Prawitt et al. 2012; Sudsomboon 2011), an in-house team is better able to spot fraud than the outsourced IA (Coram et al. 2008; Abbott et al. 2007; Selim and Yiannakas 2000).

Employing a private outside company to carry out internal audit responsibilities on behalf of an organisation is known as internal audit outsourcing. Companies can access specialised knowledge and resources, save money, and raise their level of flexibility by outsourcing internal audit. Advantages of internal audit outsourcing include:

1. Access to specialized expertise: Outsourcing internal audit can provide organizations with access to a broader range of expertise and resources than they may have in-house.
2. Cost savings: Outsourcing internal audit can be more cost-effective than maintaining an in-house internal audit department, as it eliminates the need to hire and train staff.
3. Increased flexibility: Outsourcing internal audit can provide organizations with more flexibility in terms of the scope and frequency of internal audit activities.
4. Objectivity: Outsourcing internal audit can provide an objective assessment of the organization's operations, as the external firm is not subject to the same pressures and biases as an in-house internal audit department.
5. Continuity: Outsourcing internal audit can ensure continuity of service, even if key staff members leave the organization.

However, internal audit outsourcing may have drawbacks, including a loss of control, a breakdown in communication, and reliance on the external supplier. Therefore, before choosing a supplier who satisfies their unique requirements and risk profile, firms thinking about outsourcing internal audit should carefully weigh the benefits and drawbacks. However, internal IA decision-making is more important when it comes to safeguarding firm information and improving organisational performance. Managers may also consider IA technological expertise, the calibre of IA services offered, and difficulties with coordination and communication when deciding whether to outsource the IA (Sharma and Subramaniam 2005).

Conclusion

Internal audit is a direct, unbiased assurance and consulting activity that aids organisations in achieving their objectives by employing a rigid, precise process to assess and enhance the efficacy of risk management, control, and governance systems. To be effective, internal auditors need a range of skills, including technical knowledge, risk management,

governance, and control, as well as interpersonal and communication skills, analytical prowess, and business knowledge. They must also stay current with any new advances in their industry. Guidelines, professional associations, seminars, conferences, studies, publications, software, tools, mentors, and the internal audit department are just a few of the resources available to internal auditors. Internal audit outsourcing, on the other hand, is the practise of an organisation employing a third-party business to perform internal audit duties on its behalf. By outsourcing internal audit, businesses can gain access to specialised knowledge and resources, make financial savings, and increase their level of flexibility. However, there could be some negative effects, such as a reduction in autonomy, a breakdown in communication, and dependence on a third party. Organizations should carefully consider the advantages and disadvantages of outsourcing internal audit before selecting a supplier who satisfies their specific requirements and risk tolerance.

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