

INTERNAL AUDIT NEWSLETTER

ISSUE #RRCO-IA04

The Internal Audit Dilemma: In-House or Outsourced Teams

Let's take a brief introduction of the topic:

Organizations have the flexibility to conduct audits internally or delegate them to external audit firms, with each approach offering its own benefits and challenges. The decision is influenced by factors such as the organization's scale, industry dynamics, and unique requirements.

Internal audit teams bring a deeper understanding of the organization and allow for tighter control, while outsourcing offers specialized skills and adaptability.



Rathi Rathi and Co.

Chartered Accountants

Thursday, December 05, 2024



LET'S TAKE AN EXAMPLE

XYZ, a leading company in assembling and distributing electronic items across India, is well-known for its strong internal controls within the industry.

Initially, the company outsourced its Internal Audit function. However, as the firm continues to grow, it is now keen on establishing an in-house Internal Audit team. The company aims to evaluate which option would be more suitable for its needs.

01/08

Quote of the day:

**"Change is not a threat, it's an opportunity.
Survival is not the goal, transformative
success is."**

OUTSOURCED INTERNAL AUDIT



Outsourced Internal Audit is when an organization hires an external firm or auditors to perform its internal audit functions instead of using In-house employees. This approach allows the organization to access the expertise, tools, and resources of specialized audit firms without the need to maintain an internal audit team. The Outsourced team works on assignment basis and the periodicity may vary.

INDEPENDENCE

An external audit team offers an independent viewpoint, helping to spot risks or issues that internal teams might overlook. It adds credibility to the process, building trust with stakeholders. An external team ensures unbiased assessment which in return promotes transparency and accountability.

SPECIALIZED EXPERTISE

External Internal Audit Team have their specialized expertise. They bring deep knowledge of industry regulations and best practices, allowing them to effectively tackle complex audits. This allows for more focused expertise on high-risk areas without overburdening internal teams.

BENEFITS OF OUTSOURCED INTERNAL AUDIT

SUFFICIENT RESOURCES

One benefit of employing an outsourced internal audit team is that it gives you access to adequate resources, including skilled auditors, advanced tools, and specialized knowledge that might not be found internally. This ensures a comprehensive and efficient audit process.

BENCHMARKED QUALITY

Outsourced auditors typically engage in structured methodologies and standardized procedures for information processing. The in-depth knowledge of every aspect of Industry gives them an edge of improved quality.

IN-HOUSE INTERNAL AUDIT



An In-house Internal Audit is a review of a Company's Internal Systems, processes, and procedures, carried out by a qualified and skilled employees within the organization. Internal auditor may be part of a larger department or division, such as finance, operations etc. The In-House Internal Audit is a continuous, real-time process that systematically covers various areas within the audit scope.

BENEFITS OF IN-HOUSE INTERNAL AUDIT



Greater Control and Flexibility

In-house auditors know the organization's operations, policies, and procedures well, so they can give more relevant recommendations. Also, it helps organization to focus on specific areas and adjust the audit plan as needed.

Better Communication

As internal audit team works inside the organization, employees working in the department are known employees, it helps in the functions involved in internal audit such as collecting data, asking doubts become easy and readily available.

Confidentiality

The internal audit involves the employees in the organization. This keeps the organizational data within organization and makes it more secure to share data within the internal team rather than sharing it to the external team.

TYPES OF INTERNAL AUDITS



**FULL
OUTSOURCING**

Entire Audit function is carried out by external Team. This can be a good option for companies that need specialized knowledge or have limited staffing or efficiency for internal audits. This arrangement may be permanent for companies that cannot afford a full-time dedicated team. Companies can choose to opt for Full Outsourcing till they set up Internal Audit Team.



**PARTIAL
OUTSOURCING**

It is a type of arrangement where the organization purchases less than 100% of the services from the external Internal Auditing Team. This involves delegating a substantial part of your internal auditing services to a third party. E.g. Payroll Services.



CO- SOURCING

The in-house internal audit team works with the external provider on a project. This might be done when the in-house team is short-staffed, needs to meet a deadline. This approach can also be used when you need to cover the most remote business locations, or when specialized skills are scarce.

Audit Observation

LOSS OF REVENUE DUE TO NON-SEGREGATION OF SCRAP

During a review of the scrap sale process, it was found that materials like printed circuit boards (PCBs) and other electronic parts are moved from the production area to the warehouse without being sorted first. As a result, the scrap is sold all together as one mixed pile, without separating the more valuable items. PCBs, for example, contain materials like aluminum, which could be sold for much more value if they were separated from the rest of the scrap.



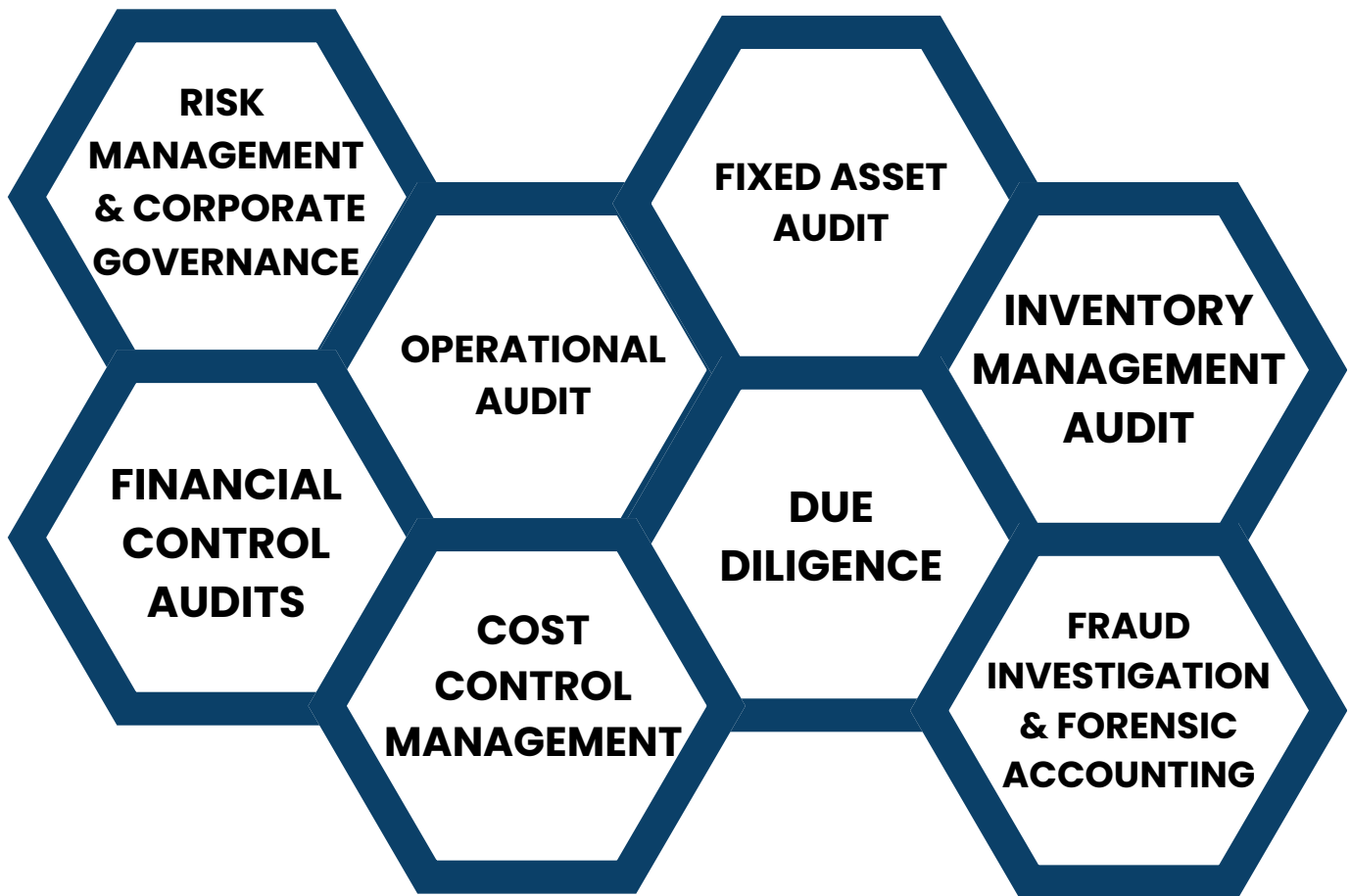
Risk Involved

The company is losing out on extra revenue by not taking advantage of the higher market value of separated materials like aluminum. This leads to lower profits from scrap sales than what could be achieved.

Recommendation

To address this risk, the company should implement a segregation process for scrap materials before selling them. Specifically, valuable materials like aluminum and other high-value components should be separated from mixed scrap to increase the revenue from scrap sales.

INTERNAL AUDIT & RISK ADVISORY SERVICES



OTHER SERVICES AT RRCO



MEET OUR NEW TEAM MEMBER

We are thrilled to welcome CA Raja Gupta as a manager to our Internal Audit team. A passionate Internal Auditor having in depth knowledge and experience in Audit, Taxation, and Finance.

His dedication to excellence and a proactive approach will undoubtedly enhance our team's capabilities and strengthen our efforts to support clients in achieving their goals.



CA RAJA GUPTA
Audit Manager

We are committed to leveraging our diverse expertise and unwavering dedication to excellence to consistently meet and surpass client expectations.

“ FOCUSED ON VALUE ADDITION ”



**CONNECT
WITH US AT :**



Website: www.rathiandrathi.com



Mail: info@rathiandrathi.com

07/08

RRCO CORNER

*Partners during the celebration of
RRCo's 12th Anniversary*



08/08