

## RESOURCE MANAGEMENT – OPERATIONAL GUIDANCE

### The requirement

The primary standard to which this guidance applies is Public Sector Internal Audit Standard 2030 Resource Management. Other standards of relevance to this guidance are 2010 Planning, 2020 Communication and Approval, 2050 Coordination, 2060 Reporting to Senior Management and the Board and 2450 Overall Opinions.

### Nature of this operational guidance

This guidance has been developed primarily to assist chief audit executives (CAEs) in assessing and communicating the resources required to deliver a plan and provide sufficient evidence-based engagement conclusions and/or opinions to support the annual internal audit opinion. It may also be of interest to those who consider the audit plan (e.g. senior management and the audit committee), to help them understand the factors that are considered in determining the required resources.

This guidance should be read in conjunction with PSIAS operational guidance regarding Annual Planning, which is closely linked to resources; the internal audit plan must take into account the requirement to produce an annual internal audit opinion.

This guidance is structured as follows:

1. Introduction
2. Assessing the resource requirements
3. Stakeholder engagement

### 1. Introduction

The PSIAS require the CAE to ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the proposed plan. The assignments included represent the primary source of evidence supporting the CAE's internal audit opinion, which must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The PSIAS require that the risk based plan explains how internal audit's resource requirements have been assessed. In addition, where the CAE considers the level of resources will impact adversely on the provision of the annual opinion, the consequences must be brought to the attention of the board.

Many different factors have to be taken into account by the CAE, both when preparing the plan and throughout the delivery period. These include factors relating to composition and proficiency of the internal audit function itself and others concerning the size, complexity and maturity of the client(s). This guidance does not recommend specific systems or models for assessing and managing resources, but it does set out factors that should be taken into account by CAEs in considering the resource requirements and for engagement with key stakeholders, including the board.

### 2. Assessing the resource requirements

Many factors require to be taken into account when assessing the resources required for delivering the internal audit plan, especially the organisation's risk profile and appetite. During

the annual planning process, the CAE will need to consider the amount of resource required, the delivery model (e.g. in-house, partly or fully out-sourced) and the appropriate mix of knowledge, skills and experience to ensure delivery of the audit opinion.

### Links to the plan

The audit resources required are derived from the scale and complexity of the audit plan, including the priority and risks for the organisation associated with each of its components. In preparing the plan and assessing needs, the CAE should consult widely within the organisation so the views of key stakeholders can be considered at the outset.

In assessing the amount of resources required, the CAE should take account of a number of factors that impact upon the delivery of the plan, in addition to delivery and reporting of individual assurance and consulting/advisory assignments:

- Strategic planning and engagement with the board, including the preparation and delivery of strategic documents and reports
- Following up on individual assignments
- Travel
- Contingency to cover e.g. sick/maternity/study and continuing professional development absence, unexpected assignment over-runs, unplanned assignments/investigations
- Personnel costs associated with the above, plus other costs as appropriate e.g. accommodation, training, equipment, software, telecoms, VAT
- The potential to make the audit process more efficient
- Other sources of assurance and the work required to validate these.

The scale and composition of the resource required for all of the above will vary between organisations, with each having its own particular circumstances.

### Quantitative tools and benchmarking

While quantitative methods and benchmarking can be of some assistance to the CAE in assessing resources, these need to be used with care. Typically, these have been developed as mainly technical tools that draw on data and experiences from various sources, 'smoothed' to enable a degree of generic applicability. There is a risk that they might drive down the norm to a level that would impact adversely on the ability to deliver the audit plan and opinion in line with the professional standards.

If using them, the CAE should take careful account of these issues and consider using those tools most suited to the organisation's size, sector and risk maturity, adjusting as appropriate for any specific factors. Alternatively, or in addition, the CAE might wish to draw on the experience and knowledge of, and consult with, other experienced auditors who face or have faced similar challenges. Useful conversations can also be had with the external auditors and/or the Audit Committee chair. Ultimately however, it is a matter of judgement for the CAE.

### Quality Assessment and Improvement Programme results

The results of internal and external assessments carried out may also provide the CAE with information relevant to the resource requirements. CAEs should be alert to areas of non-conformance or recommendations that directly or indirectly impact on resourcing. For example, if an internal audit activity is found to be lacking in a particular skill area, he or she may choose to

recruit resource on a permanent or short-term basis to fill that particular gap. Alternatively, an external assessment may recommend that to make an internal audit activity more efficient, resources within the activity could be redeployed to other areas of internal audit work.

### Client organisation issues

In assessing resource requirements, the CAE also takes account of various factors including, but not limited to, the size, complexity, maturity and risk appetite of the organisation. Larger organisations are likely to be more complex and comprise a wide diversity of operations but they may also be more stable with well-developed systems and process. Smaller organisations may have fairly straightforward controls and governance arrangements but might be at more risk from relatively small changes to key systems or personnel. These factors will feature in the development of the audit plan, but they also impact on the scale and mix of resources required for its delivery.

More complex organisations may have more complicated audit resource requirements, both in terms of skills and deployment. It is more likely that specialised skills will be required as an integral part of the regular audit activity, whether the service is to be provided in-house or via a shared service, out-sourcing or co-sourcing arrangement. The CAE should assess the need for specialist skills as part of the resource assessment and consider the options for addressing any gaps identified. These options may include recruitment, training, procurement or, in particular circumstances, taking assurance from other appropriate sources of assurance. The last of these will require an assessment by the CAE of the extent to which reliance can be taken, including the competence, objectivity and independence of the assurance activity (see also standard 2050 Coordination).

### 3. Stakeholder engagement

The CAE puts together the proposed audit plan taking account of the views of key stakeholders through a consultation process. As part of that process, the CAE will also assess the resources he/she considers necessary to deliver the proposed plan. Before the plan is approved by the board, it is clearly essential that the CAE assesses the extent to which the resources actually available are sufficient to deliver the plan.

In consulting with stakeholders, the CAE should build good relationships and support where possible for the emerging plan, as there can be different perceptions about the resources required for the delivery of audit activities. In particular, time spent engaging with members of the board and the external auditors can be beneficial, as both have a particular interest in ensuring there is an effective and sufficiently-resourced internal audit service. If the resources made available are insufficient to deliver the plan, then the CAE must consider the implications of that, including the impact it may have on the assurance and opinion that can be given and the risks this deficit may present for the organisation. Where the CAE considers that the resource shortfall will have an impact on his/her ability to provide an evidence-based opinion, then that must be raised with senior management. If the issue is not resolved at that stage, then the problem and its implications must be escalated to the board.

These conversations are likely to prove challenging and it is important that the CAE is well prepared to present his/her case. In some cases management may be resistant to increasing resources initially, perhaps on the basis of cost, but possibly also on the grounds of perceived need. The CAE should have sufficient evidence to support the conclusion he/she has reached, drawing as necessary on sources such as:

- the organisation's risk appetite and risk register
- the organisation's objectives and wider assurance needs

- benchmarking against similar organisations
- standards/guidance
- the organisation's past performance in implementing IA / other regulator recommendations for improvement, and
- any other independent sources available.

Where there is or is likely to be a disagreement on resources, the CAE should try to reduce the risk of a "surprise" by preparing the ground in early discussions and ensuring that key influencers and stakeholders are also properly briefed and included in discussions where appropriate. Issues likely to feature in discussions will include:

- options for securing additional or specialist resources. These will include the potential to recruit new staff (qualified or to train), hire contract staff, bring in secondments from within or outside the organisation, out-source or co-source selected IA activity with an external supplier, obtain guest auditors and/or organise reciprocal arrangements
- any options for amending the proposed audit plan. This is likely to involve discussion about the scale and focus of the plan and the extent to which it links to the organisation's key risks and aligns with its risk appetite. There may be potential to reduce the scale of the plan, possibly by reducing the number of activities, merging activities where practicable and appropriate, revising downwards the planned resources allocated to specific activities and/or adopting lean/continuous auditing techniques
- alternative sources of assurance (standard 2050 Coordination). When deciding whether resources are adequate or how assurance can be boosted, the CAE should take into account other sources of assurance and plan to undertake the necessary evaluation of alternative service providers.

In all such circumstances the CAE will have to consider the impact that this may or will have on level and quality of the evidence available for providing the annual opinion. If resources are scarce and need to be allocated between consulting and system or compliance work, the CAE should consider which has more impact on the annual internal audit opinion. Particular care will be required where all or part of the IA provision is outsourced as there may be contractual issues involved in any proposals to reduce or alter the level of activity, or moving to a consortium or shared service arrangement.

It is important to recognise that resourcing issues may materialise in-year as readily as at the planning stage, but the principles and mitigations are largely the same. In either situation, a decision will ultimately be taken by management and the board/audit committee on the expectations for delivery of the audit plan and about the resources available to the CAE. If the CAE remains unsatisfied with any agreement/compromise reached and considers that he/she will not be in a position to provide a full evidence-based opinion, then it is essential he/she reports the situation promptly and formally to the board. In such circumstances, the CAE should report whether sufficient activity will be carried out to provide a restricted scope opinion or whether he/she will be unable to provide an opinion at all (2060 Reporting to Senior Management and the Board and 2450 Overall Opinions).