
From: James Barr <jbarr@kpmg.ca>
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Attachments: kpmg_ia_sourcing_options.pdf

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Submitted values are:

Date Sunday, September 15, 2019

To His Worship the Mayor and Members of City Council

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Subject SPC on Finance Agenda item 7.3.1 - Internal Audit Service Delivery Model

Meeting (if known) SPC on Finance - Sept 16, 2019

Comments

KPMG is one of the largest professional services firms in Canada, with a dedicated internal audit practice consisting of over 500 audit and IT audit professionals (with 15 professionals in Saskatchewan, including two partners, one of which is the national service line leader). We currently have a Master Framework Agreement for Risk, Assurance & Consulting Services with the City of Saskatoon, and were invited to submit comments with respect to topic 7.3.1 on the agenda for the SPC-Finance's public meeting on September 16, 2019 (Internal Audit Service Delivery Model).

We have reviewed the Decision Report supporting this agenda item and offer the following comments for the Committee's consideration:

KPMG is regularly asked by management, boards and audit committees of organizations of all types about the optimal delivery model for internal audit services. We agree that the three options examined in the City's Decision Report are the most commonly considered options, and we believe that the City's analysis of the advantages and disadvantages of each option is fairly sound. We offer some additional analysis and consideration points for the City on this topic in our attachment to this submission entitled KPMG IA Sourcing Options.

Our view, based upon our considerable global experience as an internal audit service provider, is that it would be quite difficult for the City to move to an in-house model for internal audit and be able to hire and retain sufficient expertise to perform value-added audits in all areas that would be required at a cost similar to its current internal audit spend (i.e., a sufficiently experienced leader and team plus specialty auditors in IT and other sector or subject matter areas).

We believe that the City would be best served to maintain a sourcing element to its internal audit delivery model (via either a co-source or an outsource) in order to have access to knowledge of leading practices, specialized skill sets and flexible capacity that is required to deliver high-value internal audit services for a large and complex organization such as the City.

If the City decides to proceed with the co-source option, we caution that a strategy of competitively sourcing each individual audit project may not deliver as much savings as anticipated, and may actually result in less value added than selecting one primary service provider to assist with most or all service needs. Individually procuring each audit project may result in a lower professional fees for some projects, but there are also many additional factors that add costs or reduce utility, such as:

- Additional effort and costs to continually develop procurement documents, administer procurements, evaluate, award and contract for services;
- Time and effort required by City staff to continually onboard new providers to the City's people, systems, processes, audit methodology and templates, reporting formats, etc.;
- Different reporting formats, styles and language resulting in less integrated reporting that is harder to understand and interpret by City leaders; and
- Continually requiring service providers to bid for all projects introduces a risk that some may bid pricing to win that is too low to allow for high-quality work (i.e., they may cut corners and/or not go into sufficient depth to identify truly value-added opportunities for improvement).

Our experience indicates that organizations typically receive better overall value (and equivalent all-in costs) by partnering with one internal audit provider for most or all of its service requirements, especially a primary partner who does not provide a significant amount of other services to the City and thus is completely independent.

KPMG's Recommendation

We recommend that the City maintain a sourcing element to its internal audit delivery model via either a co-source or outsource. If the City decides to proceed with the co-source option, it would be better served by selecting one co-source partner to work with on most or all of its service requirements. This strategy would allow for the service provider to develop better knowledge of, and relationships with, Internal Audit and City representatives, systems and processes, and avoid the costs and effort of continual procurement and onboarding of different providers. Such a model would not have to be exclusive, as the City could reserve the right to seek other service providers to deliver unique or complex engagements that, for whatever reason, the use of the primary service provider is not desirable.

Attachments

[kpmg_ia_sourcing_options.pdf](#)

The results of this submission may be viewed at:

<https://www.saskatoon.ca/node/398/submission/336619>



Internal Audit Sourcing Options

Information Item for the City
of Saskatoon

September 16, 2019



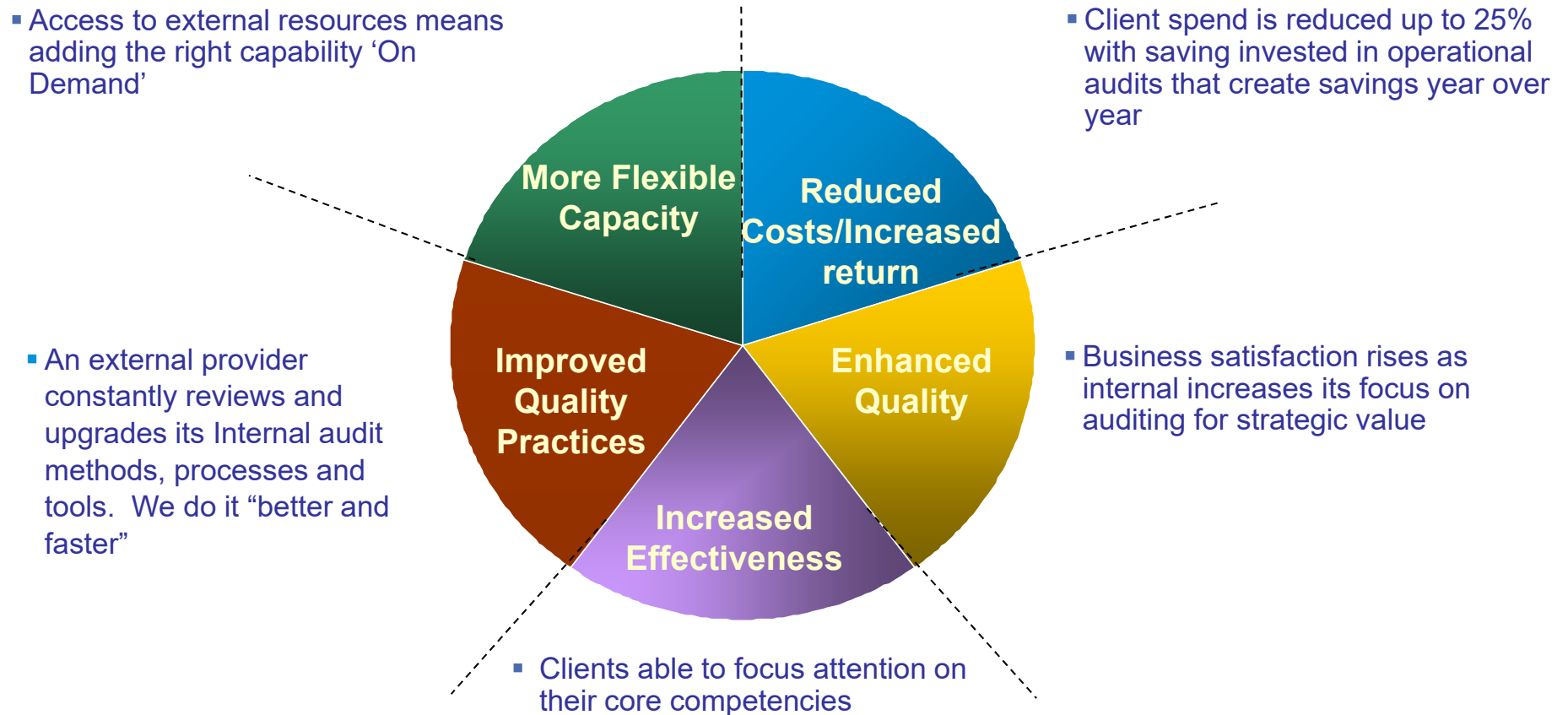
Sourcing Options Summary

We are seeing:

- Companies increasingly outsourcing or co-sourcing some of their functions outside their core competencies as a way of getting access to subject matter expertise, reducing costs, freeing up capital, and achieving greater flexibility.
- The internal audit (IA) function within organizations is being asked to move beyond its traditional role and become more capable of protecting organizations against risks and improving control systems.
- Strategic sourcing of IA gives an organization immediate access to specialized resources and tools and methods to quickly adjust to changing business conditions.
- Increased complexity and regulatory expectations combined with an increasing desire to maximize revenue and a need to reduce costs is increasing demands on internal auditors
- The use of tools and methods to analyze complete populations of data for risks and opportunities

The Internal Audit Delivery Model

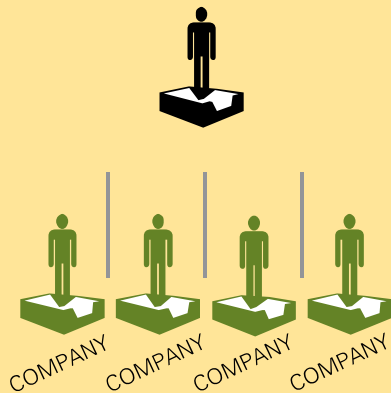
You can realize many benefits, including significant cost savings and increased return from findings:



Alternative Internal Audit Sourcing Strategies:

IN-HOUSE MODEL

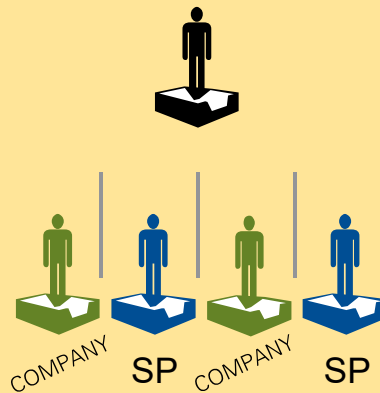
COMPANY



The organization would internally staff 100% of their Internal Auditing resources.

CO-SOURCED MODEL

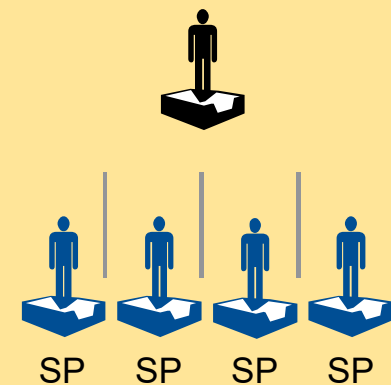
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A Service provider (SP) would serve as an extension of the organization's Internal Audit, working collaboratively with team members of the in-house department (on a project-by-project basis, as needed).

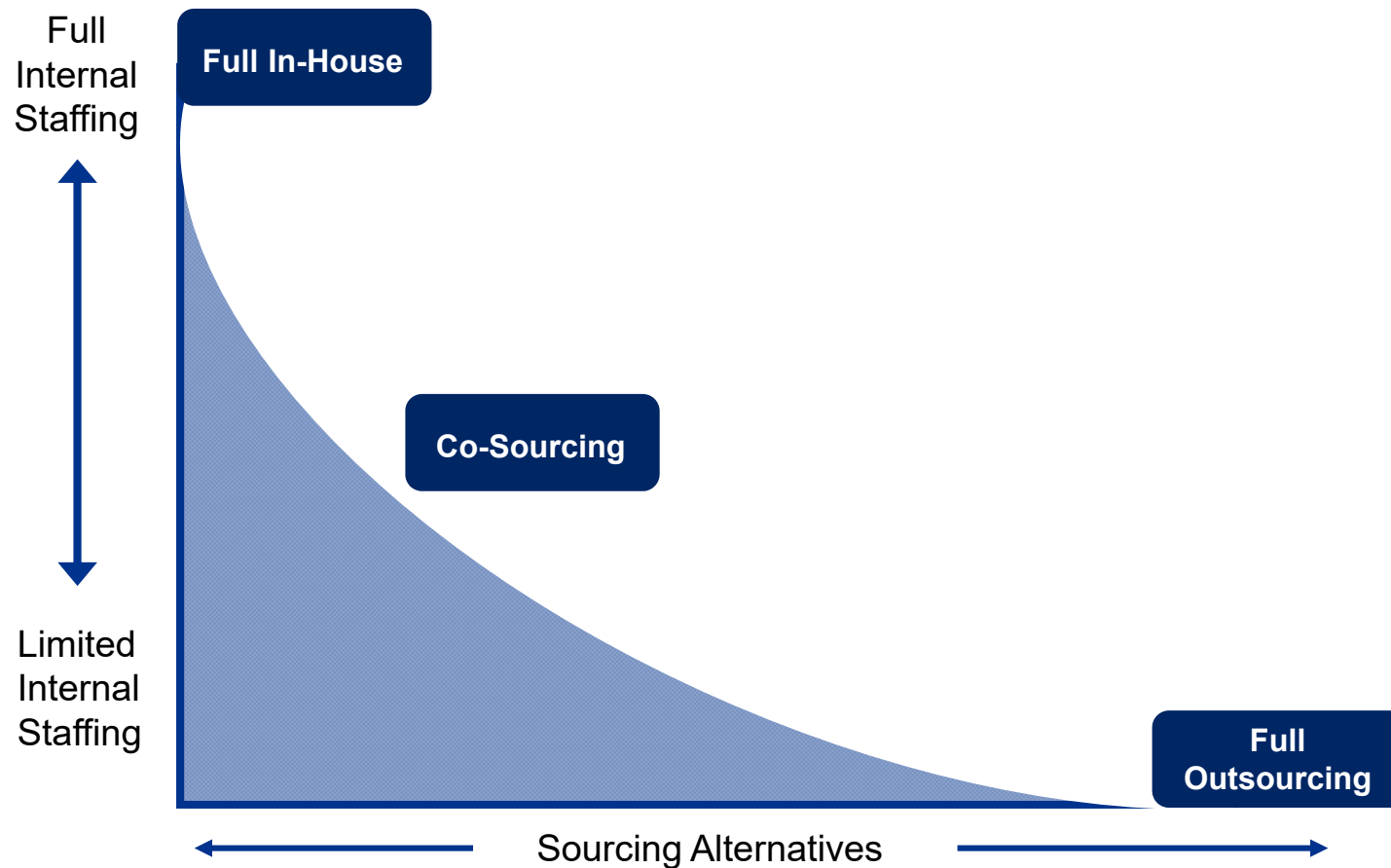
OUTSOURCED MODEL

COMPANY



In this arrangement, service provider (SP) would perform the function of Internal Audit, providing end-to-end services working closely with, and report to, the In-House Client Representative and the Audit Committee.

Alternative Internal Audit Sourcing Strategies:



Sourcing Models – In-House

- With an in-house internal audit function, the administration and management of the internal audit function is conducted by the company itself.
- Typically an internal audit manager is appointed to administer and manage the internal audit function and is supported by a team of internal audit staff who are employed by the company.
- The internal audit manager would set out the internal audit plan, oversee the conduct of the audits, control the reports issued to management and report the results to the audit committee.

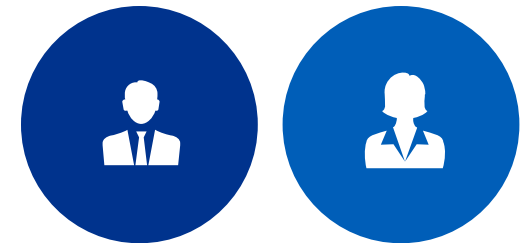
Benefits

- ✓ Dedicated internal audit staff
- ✓ Detailed knowledge & experience of internal affairs
- ✓ Prompt and consistent follow up with management
- ✓ Easier access to systems for audit purposes
- ✓ Close relationship with management

In-House

Disadvantages

- ✓ Reduced independence
- ✓ Staff are not up to date with changes in risk & control methodologies & technology
- ✓ Risk management / control models and tools may become outdated over time
- ✓ Staffing/human resource administration and costs borne directly by the company
- ✓ Audit inefficiencies are borne by the company
- ✓ Investment in technology, training and set-up costs are borne by the company
- ✓ Inability to benchmark the company against other companies



Sourcing Models – Co-Source

- Through co-sourcing, the administration and co-ordination of the internal audit function is conducted at the Company itself.
- An internal audit manager would normally be appointed to administer and co-ordinate the internal audit function, and he may hire additional internal audit staff.
- Permanent internal audit staff costs and other Human Resource costs would be borne by the Company.
- The internal audit manager, in consultation with the service provider, would set out the internal audit plan and report the results to the audit committee.
- The service provider would supply internal audit staff to fill staffing gaps, oversee the internal audit work performed by its own staff and issue the internal audit report.

Benefits

- ✓ Increased independence compared with in-house
- ✓ Latest risk management/internal audit models and tools are employed
- ✓ Staffing/human resource administration and costs are less than in-house
- ✓ Knowledge of industry and access to the service providers industry knowledge bases
- ✓ Dedicated manager to administer & co-ordinate internal audit function
- ✓ Detailed knowledge & experience of internal affairs
- ✓ Prompt and consistent follow up with management

Disadvantages

- ✓ Reduced independence compared with outsource
- ✓ Lack of compatibility with internal audit methodologies and tools
- ✓ Staffing/human resource administration and costs are greater than outsource
- ✓ Experienced and knowledgeable staff are not retained by the Company
- ✓ Inefficiencies of the manager and own staff are borne by the Company
- ✓ Investment in technology, training and set-up costs are borne by the Company for permanent staff
- ✓ Reliance on third parties

Co-Source



Sourcing Models – Out-Source

- Through outsourcing, the administration and co-ordination of the internal audit function is conducted by the service provider.
- The service provider would set out the internal audit plan in consultation with management.
- The service provider would oversee the conduct of the audits, control the reports issued to management and report the results to the audit committee.
- Permanent internal audit staff costs and other Human Resource costs would be borne by the service provider.
- The service provider would supply the right staff for each audit at a time suitable to the Company.

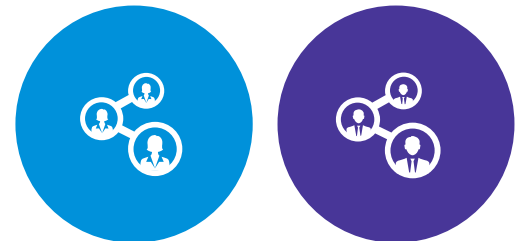
Benefits

- ✓ Independence
- ✓ Latest risk management / internal audit methodologies and tools are employed
- ✓ Specialist audit staff, with relevant skills and experience, are available
- ✓ Knowledge of the industry and access to local and international industry knowledge bases
- ✓ Inefficiencies are borne by the service provider
- ✓ Staffing / human resource administration and costs are borne by the service provider
- ✓ Easy to switch staff or obtain relevant skills

Disadvantages

- ✓ Reduced knowledge and experience of internal affairs
- ✓ Lack of dedicated full time staff
- ✓ Experienced and knowledgeable staff are not retained by the company
- ✓ Reduced access to company systems for audit purposes
- ✓ Reliance on outsource partner

Out-Source



Internal audit sourcing model – Benefits

Benefit	Description
Manage IA costs	✓ Sourcing can reduce costs and drive value through improved quality and service
Tap resources of a top provider	<ul style="list-style-type: none"> ✓ A sourcing provider can offer scalability and flexibility to adapt to business needs ✓ Strategic sourcing can give an organization immediate or just-in-time access to global resources
Leverage the infrastructure of the provider	✓ Costs of developing and maintaining an IA capability (employee training, recruiting, state-of-art systems and methodologies) are shifted to the provider, freeing up the organization's capital and resources for other purposes
Gain access to leading practices and subject matter professionals	✓ Sourcing arrangements provide access to professionals who can provide additional value in the audit process through their technical skills (IT, forensics, treasury, risk management, procurement, etc) and industry experience
Gain access to global resources	✓ A sourcing provider can create efficiencies by reducing travel costs, understanding the local culture, and providing local resources with appropriate language skills

Internal audit sourcing model - Benefits

Benefit	Description
Address the human resources challenges	A sourcing provider will ensure high-quality personnel with appropriate financial, operational, and language skills along with specific industry and subject matter knowledge.
Gain access to leading IA methodologies	Providers can bring companies IA methodologies and supporting technologies that are risk-based, field-proven, and scalable
Enhance independence	An IA sourcing provider may be able to maintain a greater degree of independence and objectivity in its oversight compared with an in-house function, maintaining standard practices
Strengthen communication	IA sourcing providers can establish or enhance effective communications on organizational risks and governance with senior executives, CEOs, CFOs, and audit committees
Focus on core competencies	Sourcing the IA function enables the organization to free up capital and resources for core activities and critical strategic business priorities



Thank you



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