The Importance of having an Effective Resourcing Solution for your Internal Audit Function amid Today’s Challenges — What suits you the best?

With the objective of enhancing the standard of corporate governance amongst companies listed in Hong Kong, the Hong Kong Exchanges and Clearing Limited has released a Consultation Paper and proposed a series of changes to the existing Corporate Governance Code and Corporate Governance Report in June 2014. Particularly, the key proposed changes relevant to internal audit functions of listed companies are as follows:

1. The recent Consultation Paper on Corporate Governance Code and Corporate Governance Report

   - Annual Review and Disclosure in the Corporate Governance Report
   - Audit Committee’s Role
   - Risk Management and Internal Control
   - Responsibilities of the Board and Management
   - Internal Audit

With the objective of enhancing the standard of corporate governance amongst companies listed in Hong Kong, the Hong Kong Exchanges and Clearing Limited has released a Consultation Paper and proposed a series of changes to the existing Corporate Governance Code and Corporate Governance Report in June 2014. Particularly, the key proposed changes relevant to internal audit functions of listed companies are as follows:

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2016 PricewaterhouseCoopers. All rights reserved. PwC refers to the Hong Kong member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.
The Increasing Importance of Internal Audit Function

Globally, organisations are placing increasing reliance on internal audit function to:

- Maintain appropriate vigilance over processes and controls in a turbulent economic environment;
- Cover broader risks beyond financial perspective (i.e. strategic, operational and compliance) to align the internal audit function with the organisation’s strategic priorities;
- Contribute to cost management efforts by identifying process improvement, cost recovery and efficiency opportunities;
- Coordinate with other risk management functions to avoid duplication of effort and avoid gaps;
- Assess risks for new and emerging markets.

Possible Factors to be considered when Evaluating the Resourcing Solutions for your Internal Audit Function

- Current availability of internal audit resources
- Size of your organisation
- Current competency of your internal audit function
- Independence and objectivity
- Flexibility in staffing arrangement
- Cost and benefit
- Acquisition of knowledge in subject matter
- Geographical needs
- Law, statute or regulatory requirements

Available Resourcing Solutions for your Internal Audit Function

<table>
<thead>
<tr>
<th>Action</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full in-house</td>
<td>Execution of internal audit function using only internal resources</td>
</tr>
<tr>
<td>Co-sourcing</td>
<td>Out-source selected functions, divisions, geographies, and / or projects</td>
</tr>
<tr>
<td>Out-sourcing</td>
<td>Delegate the whole internal audit function to a third party</td>
</tr>
</tbody>
</table>

What are the Pros and Cons of the various Resourcing Options?

**Pros**

**Cons**

**Full in-house**

- Maximum degree of control over IA function
- In-depth knowledge of the organisation, processes and people
- In-house talent training ground

- Requires high level of management time and attention
- Highest “fixed cost” model
- Continuous recruiting, training, methodology and technology investments
- Increasing stakeholder expectations

**Co-sourcing**

- Functional controls remain in-house
- Focus on core competencies
- Access to specialised resources, best practices
- Cost flexibility via “as needed” resources (variable vs. fixed cost)
- Geographical coverage with reduced travel costs

- Provider’s organisation and industry knowledge
- Cultural fit
- Staff continuity
- Certain overhead and support costs remain

**Out-sourcing**

- Focus on core competencies
- Specialised skill sets on as-needed basis
- Global resource pool
- Knowledge sharing
- Provider is responsible for the day-to-day administration of the IA function and execution

- Comfort level of Board of Directors
- Provider’s organisation and industry knowledge
- Cultural fit
- Management own all strategic decisions
- Difficulty in re-establishing in-house function

Working with PwC to realise the benefits

By working in partnership with PwC, you will be able to benefit from PwC’s leading Internal Audit experience expertise on either co-sourcing or out-sourcing solution.

**Co-source Internal Audit Function**

- Access to best practices, techniques, tools and methodologies to drive efficiency
- Increases assurance as the full audit plan is covered
- Avoids the hassle and costs of recruitment, training and employing specialist resources
- Cost-effective as resources employed only “as needed”
- Immediate access to specialist resources, knowledge and expertise tailored to your needs
- Increases responsiveness to the changing needs of the business

**Out-source Internal Audit Function**

- Access to PwC Partner to act as your independent advisor and tailor Internal Audit services
- A world class Internal Audit Services aligned to your strategic objectives
- A hassle-free, flexible and cost-effective resourcing model
- Best practice methodology and tools to drive efficiency
- Access to best in class industry knowledge and expertise
- Increased comfort from world class risk assessment and audit plan

Maintain appropriate vigilance over processes and controls in a turbulent economic environment;
Cover broader risks beyond financial perspective (i.e. strategic, operational and compliance) to align the internal audit function with the organisation’s strategic priorities;
Contribute to cost management efforts by identifying process improvement, cost recovery and efficiency opportunities;
Coordinate with other risk management functions to avoid duplication of effort and avoid gaps;
Assess risks for new and emerging markets.

Cover broader risks beyond financial perspective (i.e. strategic, operational and compliance) to align the internal audit function with the organisation’s strategic priorities;
Contribute to cost management efforts by identifying process improvement, cost recovery and efficiency opportunities;
Coordinate with other risk management functions to avoid duplication of effort and avoid gaps;
Assess risks for new and emerging markets.

Cover broader risks beyond financial perspective (i.e. strategic, operational and compliance) to align the internal audit function with the organisation’s strategic priorities;
Contribute to cost management efforts by identifying process improvement, cost recovery and efficiency opportunities;
Coordinate with other risk management functions to avoid duplication of effort and avoid gaps;
Assess risks for new and emerging markets.

Cover broader risks beyond financial perspective (i.e. strategic, operational and compliance) to align the internal audit function with the organisation’s strategic priorities;
Contribute to cost management efforts by identifying process improvement, cost recovery and efficiency opportunities;
Coordinate with other risk management functions to avoid duplication of effort and avoid gaps;
Assess risks for new and emerging markets.