



The Institute of Internal Auditors

# NON-TRADITIONAL AUDITORS: BETTER PRACTICES

This publication is a comprehensive overview of IIA NL's research into non-traditional auditors.

It provides a comprehensive overview of better practices identified related to competence, quality, independence, objectivity, selection and reward of non-traditional auditors.

For readers interested in a more extensive publication; please read the [extended edition](#) with more guidance and background or a [scientific version](#) published in MAB.

Expectations on Internal Audit are increasing, consequently IAFs need to improve their skills, understanding and capabilities.

## BACKGROUND

European Confederation of Institutes of Internal Auditing's 'Risk in Focus 2020' report highlights that organizations face a changing world in which political uncertainty and climate change increasingly impacts organizations. Combined with the effects of digitalization on business models the risk landscape has changed. The report indicates a 'risk/audit gap'. Internal Audit Functions (IAFs) spend most of their time on 'traditional' audit topics that have been surpassed by risks with a higher priority.

## ADVANTAGES OF USING NON-TRADITIONAL AUDITORS

To bring a high level of expertise on-board IAFs increasingly include persons that are not trained as auditor and/or have no experience in performing internal audits. These non-traditional auditors, often named rotational auditors, guest auditors or 'subject matter experts', function as part of the IAF for a specific period of time and come from within the organization or are hired from the outside. The use of non-traditional auditors has several advantages for the non-traditional auditors themselves, the IAF and the organization.

Advantages of using non-auditors	For the non-auditor	For the IAF	For the organization
Exports an appreciation of governance, risks, and controls throughout the organization.			
Acquisition of more in-depth knowledge of the respective business area			
Cultivation of better customer relations			
Heightened awareness of organizational sensitivity and business acumen			
Improvement of personal and career development			
Infusion of fresh ideas and perspectives, motivation to current internal auditors			
Creates an appreciation of the role of the internal audit function			
Enhancement of specific internal audit skills and competencies			
Evolving view of internal audit as a potential source of talent for the enterprise			

At the same time engaging non-traditional auditors provides (professional practice) challenges as they usually have limited experience and knowledge about internal audit and might be conflicted in their objectivity and independence. Deployment of non-traditional auditors within IAFs therefore could endanger some of the core principles of Internal Auditing.

## PURPOSE AND AUDIENCE

The purpose of this text is to share *better practices* regarding the use of non-traditional auditors in the IAF. These real-life examples are recommended protocols put in place to profit from the advantages of using non-traditional auditors, to ensure their valuable inputs contribute to the objectives of the audit function without compromising the quality of the audit process and its outputs. First this document extends on the definition of a non-traditional auditor, after which practicalities in the use of non-traditional auditors are shared.

These practices have been gathered by the IIA NL workgroup 'Non-traditional auditors in the IAF' in 2019 using two sources: through the study of scientific research about non-traditional auditors and interviews with representatives of IAFs that use non-traditional auditors.

The research showed there is no 'one-size-fits-all' approach. Size of the IAF seems to matter: bigger IAFs have more formalized ways of working than smaller ones. No clear differences between industries were identified.

## WHAT IS A NON-TRADITIONAL AUDITOR?

Prior to the definition of a *non-traditional auditor* is to consider what defines an *auditor* in the context of this investigation by means of:

*An auditor is a person working for an internal audit department with an educational background in auditing.*

Throughout the world an educational background in auditing entails different things, including – amongst others - education in operational, financial and/or IT auditing. This leads to the definition of a non-traditional auditor:

*Non-traditional auditors are all persons that do not have an educational background in auditing yet work for an internal audit department.*

**Types of non-traditional auditors**

Throughout the scientific literature and IIA’s IPPF different types of non-traditional auditors are mentioned. Three different types of non-traditional auditors come forward:

- Guest auditors;
- Rotational auditors;
- Subject matter experts.

Based on literature and the project group’s own experience an additional dimension is added to the different types of non-traditional auditors: internal versus external. Research shows that (part of) Internal Audit services are increasingly sourced through third parties, including both auditors and non-traditional auditors (for example by hiring subject matter experts). Other research indicates a positive link between outsourcing (part) of the internal audit function and the use of rotational auditors, although a conclusive explanation for this is not provided.

Within this study only externals that qualify as non-traditional auditors are considered. Trained auditors from an external organization joining an IAF do not qualify as non-traditional auditors according to the abovementioned definition, even though different IAFs consider these auditors to be a ‘guest’ to the IAF.

Clear and coherent definitions for the different types of non-traditional auditors are not always provided within literature. In line with prior research the following definitions are used:

**Guest auditor:** a person with a career outside the internal audit profession, temporarily joining an IAF in one or more audits, for a specific period of time.

**Rotational auditor:** a person with a previous career outside the internal audit profession, joining an IAF for 1 – 5 years, with the intention to rotate back to a different role outside of the IAF.

**Subject matter expert (SME):** a person from another function or organization, who is participating in (part of) one or more audits mainly for his/her knowledge of the audit object. In comparison with the guest and rotational auditor the subject matter expert does not often engage throughout the entire internal audit process.

Types of non-traditional auditors		Expected contribution		
		Audit execution support		Subject matter expertise
Source	Internal	Guest auditor	Rotational auditor	Guest SME
	External	Hired guest auditor	Hired rotational auditor	Hired SME

## PRACTICALITIES IN USING NON-TRADITIONAL AUDITORS

Three main topics were identified around non-traditional auditors in the IAF:

- 1. Competence and quality;
- 2. Independence and objectivity;
- 3. Selection and Reward.

### 1. Competency & Quality

Literature studied showed a negative relation between the use of non-traditional auditors (rotational auditors) and the effectiveness and quality of the internal audits performed. Interviewees consistently had an opposite perception of this relation; according to them use of non-traditional auditors increases the quality of audits and effectiveness of the IAF. A possible explanation of this discrepancy can be found in the kind and scope of internal audit work performed: the literature focused on financial reporting while the interviews in this study are focused on operational audits.

### CONSISTENCY AND CONTINUITY OF IA SUPERVISION

Key elements of IA supervision include on-site supervision, coaching and training on the job to accelerate learning, a quality reviewer for all deliverables prepared by the non-traditional auditors prior to a final review taking place. In case of larger IAFs, allocate a dedicated Professional Practice Quality leader who reviews all audit deliverables and the IA methodology.

### LIMITING THE USE OF NON-TRADITIONAL AUDITORS TO SPECIFIC PHASES OF THE AUDIT

Interviewees stated that guest auditors can be best allocated to tasks and responsibilities in line with their strengths which may include key language skills, business knowledge and subject matter expertise rather than the full spectrum of audit activities. Other audit activities were taken on by core internal auditors.

### ON-BOARDING TRAINING & WELCOME PACKS

Onboarding trainings typically cover:

- IA Methodology: including topics such as the internal audit execution approach; key action check lists; audit scheduling approach; and timing and key activities.
- Audit techniques: including interview techniques; critical thinking; sampling; risk assessment, control testing; and report writing techniques.
- IA basics: process -, risk -, and control basics; issue identification; and root causes analysis.

### TRAINING COURSES (ONGOING)

Similar to the on-boarding packs, interviewees have also shared examples of ongoing training, particularly for rotational auditors and guest auditors that are engaged for longer periods of time (longer than 1 year). Examples of such trainings include summer training programs, annual team learning events, and IIA hosted events.

### KNOWLEDGE SHARING & ON-THE-JOB LEARNING

Interviewees also cited the use of knowledge sharing portals specifically established for non-traditional auditors to share knowledge and experiences with each other.

Better practice	Rotational auditor	Guest auditor	SME
Consistency and continuity of IA supervision			
Limiting the use of non-traditional auditors to specific phases of the audit			
On-boarding training			
Training courses (ongoing)			
Knowledge sharing & on-the-job learning			

## 2. Independence and objectivity

### CREATION OF AWARENESS

Several interviewees indicated the importance of continuous and open discussions to ensure adequate mindset regarding objectivity and independence between all team members (traditional and non-traditional auditors). They require audit team members to challenge each other on an independent and objective mindset and behavior during all phases of the audit. It needs to be clear to all team members that no close relations or career perspectives may be at stake to adequately ensure independence and objectivity.

### OPENNESS ABOUT CAREER DEVELOPMENTS

In another interview open and regular communication about the (non-traditional) auditor's next envisioned career steps outside of the IAF is used to prevent impairment of independence and objectivity. Such measure may be less effective in case of external guest auditors and/or SMEs. For example, a company active within the natural resources sector uses rotational auditors in their IAF. Business professionals join the IAF for a specific period of time. It has institutionalized

discussions around next career steps as part of performance evaluation processes to prevent impairment of independence and objectivity as well as to make the rotational audit model beneficial to non-auditors.

### IAF LEADERSHIP INVOLVEMENT

An independent and objective mindset is not only an individual responsibility; ensuring independence and objectivity ultimately is leadership's responsibility. It takes a joined effort from the CAE and each (non-traditional) auditor to adequately manage objectivity/independence issues.

### SUPERVISION/REVIEW BY LEAD AUDITOR

Possible impairment to objectivity may be prevented by having the lead auditor, who is part of the IAFs core team respectively a permanent IAF staff member, reviewing the work performed by the non-traditional auditor.

### EXPLICIT ADOPTION OF IIA CODE OF ETHICS

Some interviewees indicated that they prevent limitations to independence/objectivity by requiring non-traditional auditors to explicitly confirm that they will adopt the IIA Code of Ethics.

Better practice	Rotational auditor	Guest auditor	SME
Creation of awareness			
Openness about career developments			(internal)
IAF leadership involvement			
Supervision / review by lead auditor			
Explicit adaption of IIA Code of Ethics			
(Annual) Independence declarations			
Independence confirmation letter per audit			
Application of cooling-off period			
Limitation of audit areas/locations			
Clear communication on role models			
Audit evaluations			
External sourcing			

**(ANNUAL) INDEPENDENCE DECLARATIONS**

Independence/objectivity may be ensured by requesting rotational auditors to sign an independence declaration when starting within the IAF as well as asking for a periodic (for example annual) reconfirmation and/or an ad hoc reconfirmation in case of any changes.

**INDEPENDENCE CONFIRMATION LETTER PER AUDIT**

Several interviewees stated that guest auditors and SMEs are requested to sign a letter declaring that no conflict of interest applies with respect to the audit they will be involved in, for example no prior work history and/or personal relationships etc. in order to safeguard independence/objectivity.

**APPLICATION OF COOLING-OFF PERIOD**

Strict application of a general rule prohibiting rotational auditors to audit the area where they have been working previously for a certain period of time (for example 1 year) can ensure independence/objectivity.

**LIMITATION OF AUDIT AREAS/LOCATIONS**

Several IAF representatives mentioned strict application of a general rule prohibiting guest auditors and/or SMEs to participate in audits of the department or processes they have worked for to ensure independence/objectivity.

For example, an IAF of an internal operating company was able to exploit the specific knowledge and experience of guest auditors and/or SMEs, by engaging them in the field of their experience (i.e. finance or risk), in another part/country of the organization.

**CLEAR COMMUNICATION ON ROLE MODELS**

A better practice was identified, with respect to open communication and based on the fact that rotational auditors critically challenged the status quo during their audits respectively performed audits with great impact more likely than not, were able to obtain desirable management positions after rotating back into the business.

**AUDIT EVALUATIONS**

One IAF prevents impairment of independence/objectivity by conducting feedback sessions after every audit. In these sessions rotational auditors are challenged on their decisions by their peers.

**EXTERNAL SOURCING**

IAF representatives of smaller organizations indicated that internal staffing with guest auditors or SMEs often cannot be arranged due to independence and objectivity limitations. Their solution to this problem was hiring external resources (external guest auditors and/or external SMEs). A fresh pair of eyes from an outsider, not involved in the processes or departments to be audited can operate more independent and objective.

For example, an education provider's IAF uses guest auditors from other educational institutions. The institutions together created a pool of guest auditors that audit other institutions (where a guest auditor from organization X is auditing organization Y, and the guest auditor from organization Y does not audit organization X, but rather organization Z). On a periodic basis the institutions meet, share experiences and develop the guest auditors.

### 3. Selection & Reward

#### STRUCTURAL IMPLEMENTATION OF A ROTATIONAL AUDIT MODEL

Some IAF representatives indicated that a more structural application of a rotation model could be beneficial, even if this would mean ‘accepting’ a higher turnover rate. To make the rotational model work one should consider the inflow as well as the outflow.

#### CLOSE RELATIONSHIPS THROUGHOUT THE ORGANIZATION

To select and recruit capable non-traditional auditor to join the IAF, several interviewees indicated that keeping close relationships within the organization is a key factor for success. Future guest auditors, SMEs or rotational auditors can come from these audited departments. A better practice identified, is the sharing of IAF vacancies with these departments.

#### OFFER GOOD ROLES IN THE BUSINESS

It is important to adequately manage the outflow from IAF after the rotational period, in order to attract good candidates. Maintaining good relationships with HR and the business ensures that rotational auditors leave the IAF into roles in line with their career path.

For example, one IAF established an ‘intention agreement’ with managers of all parts of the organization to provide one or more auditors for the rotational audit program.

Another example, one IAF representative explained that board members are responsible for commitment to replace rotational auditors back into the part of the business they were responsible for. This to ensure an in- and outflow of high-potential candidates.

#### MAINTAIN AN ACTUAL KNOWLEDGE-EXPERTISE MATRIX

Another better practice identified, relates to the establishment of a knowledge-expertise matrix. By this the IAF can clearly communicate what kind of SME areas are required. This instrument is considered very helpful for recruitment and back-up purposes.

#### ALIGN RECRUITMENT OF NON-TRADITIONAL AUDITORS WITH ORGANIZATIONS’ PRACTICES

IAF representatives indicated that it is considered important to have a formalized process in place with the involvement of HR when engaging non-traditional auditors.

Better practice	Rotational auditor	Guest auditor	SME
Structural implementation of a rotational audit model			
Close relationships throughout the organization			
Offer good roles in the business			
Maintain an actual knowledge-expertise matrix			
Align recruitment of non-traditional auditors with organizations’ practices			
Internalize subject matter expertise in the IAF			
Evaluate rotational auditors in the same way as auditors			
Define criteria to evaluate guest auditors and SMEs on a case-by-case basis			

### INTERNALIZE SUBJECT MATTER EXPERTISE IN THE IAF

Some IAFs we have interviewed had internalized SMEs permanently into the IAF. This better practice might be feasible for larger IAFs only. This holds for both expert knowledge (for example, about the applicable regulations) and business knowledge (for example, about the applicable markets for the organization).

### EVALUATE ROTATIONAL AUDITORS IN THE SAME WAY AS AUDITORS

Most IAFs evaluate rotational auditors similar as auditors. Some IAFs vary based on the role of the non-traditional auditor during the audit. For example, if non-traditional auditors are not involved throughout the entire audit.

Another example, a fast-moving consumer goods company makes use of rotational auditors in their IAF. It uses common evaluation processes and KPI's for all auditors (auditors and non-auditors, staff and management).

### DEFINE CRITERIA TO EVALUATE GUEST AUDITORS AND SMES ON A CASE-BY-CASE BASIS

IAF representatives indicated that transparency about what contribution is expected of the non-traditional auditor should be clarified before the start of the audit. The related evaluation criterion should be defined on a case-by-case basis and evaluated at the end of the audit.

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