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UNIVERSAL OPPORTUNITIES AND CHALLENGES OF INTERNAL AUDITING IN THE BPO INDUSTRY

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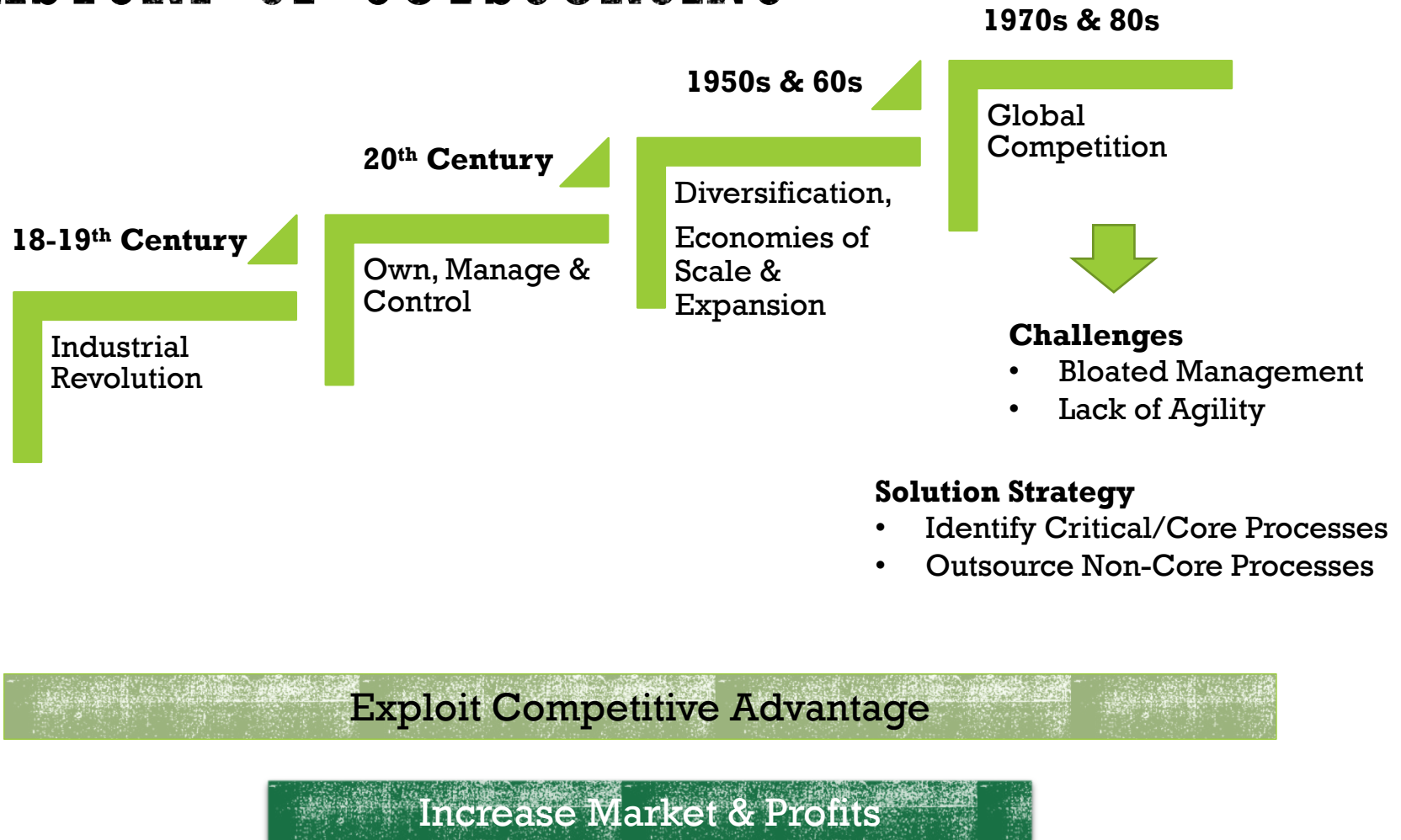
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WHAT IS OUTSOURCING?

- Outsourcing can be defined as “**the strategic use of outside resources** to perform activities traditionally handled by internal staff and resources”. Sometimes known also as “facilities management”, outsourcing is a strategy by which an organization contracts out major functions to specialized and efficient service providers, who become valued business partners. (Source: <https://scm.ncsu.edu>)
- **out-sourced, out-sourc-ing.** (of a company or organization) to purchase (goods) or subcontract (services) from an outside supplier or source.to contract out (jobs, services, etc.):a small business that outsources bookkeeping to an accounting firm. (Source: Dictionary.com)



HISTORY OF OUTSOURCING



WHY OUTSOURCE?

- Reduce and control operating costs
- Increased focus on core activities
- Access to world-class capabilities
- Free up internal resources or Insufficient resources
- Share risks with a partner company

And Why Not?

- Loss of Data Confidentiality
- Lack of Ownership and Control
- Linked to Unemployment



EVOLUTION OF OUTSOURCING

1980s	1990s	Current
No/Low Competency Internally E.g. Printing, Publishing	Non-Core Internal Processes (Cost-Saving) E.g. Support Services (Accounting, Auditing, Human Resources, Data Processing, Mail Distribution, Security, etc.	Strategic Partnerships Core Functions Enhanced Results



GLOBAL OUTSOURCING BUSINESS

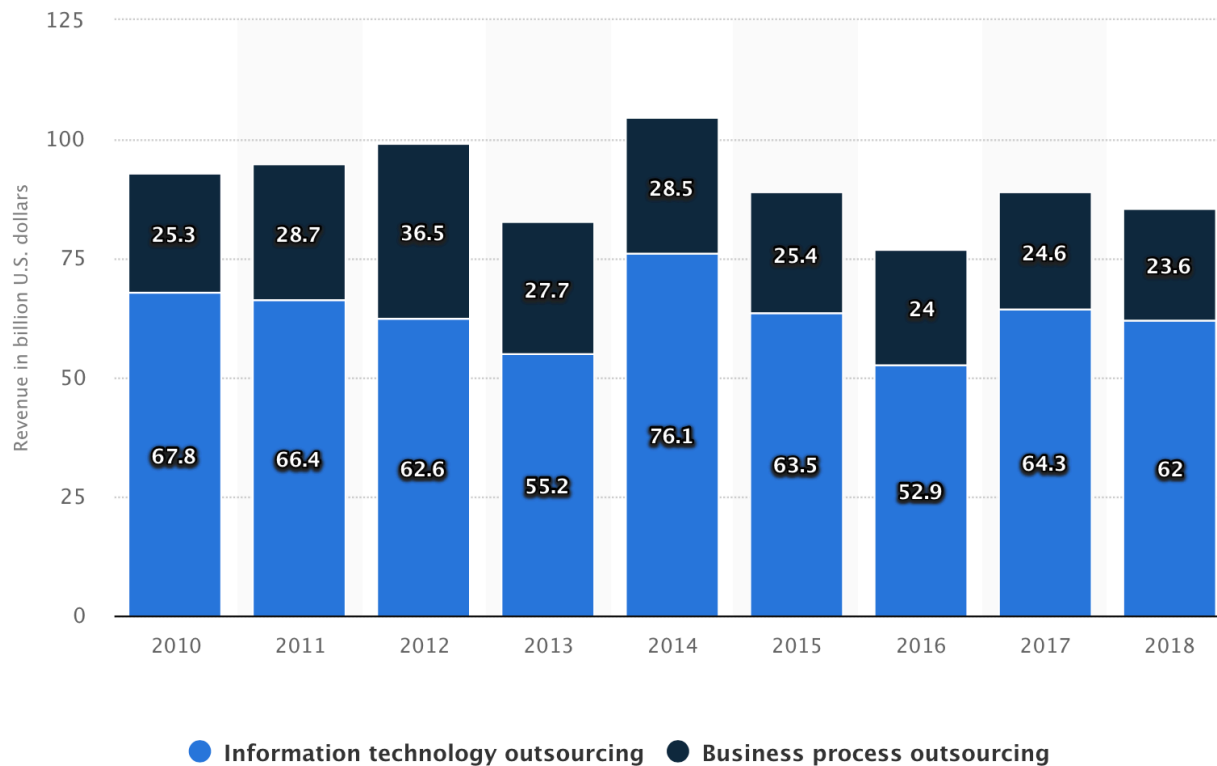


Source: Statista



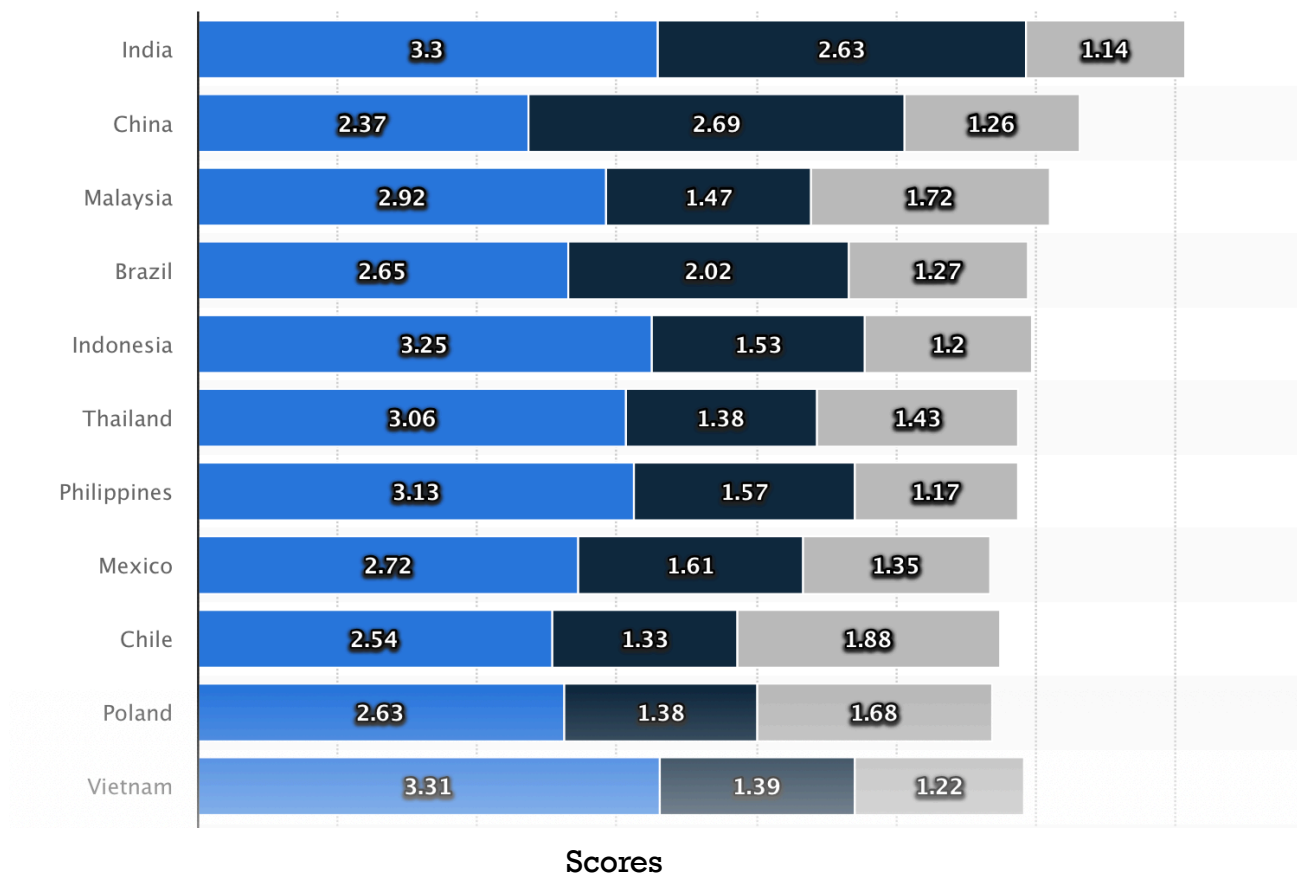
GLOBAL OUTSOURCING BUSINESS

Type of Services Outsourced (2010-18)



GLOBAL OUTSOURCING BUSINESS

Leading Countries (2017)



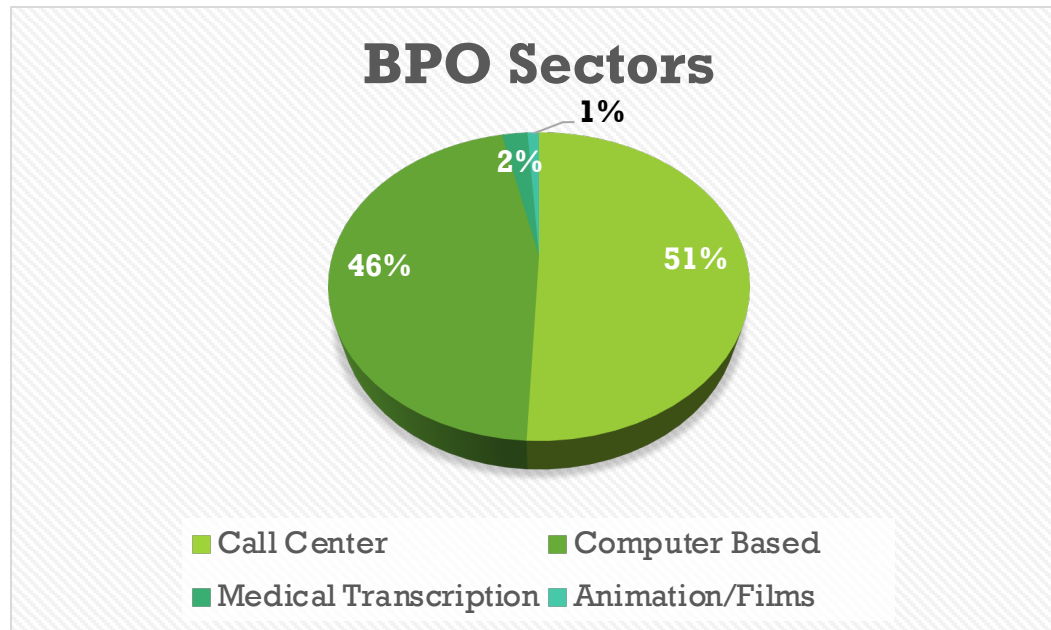
OUTSOURCING LANDSCAPE - PHILIPPINES

- Covers about 10-15% of Global Market Share
- Employs 1.3 Million People (Expected to Grow to 1.7 MM)
- Php 1.15 billion total revenue (Expected to reach Php 2 trillion by 2022, making it the main pillar of the Philippine economy, surpassing OFW remittances)
- Average Compensation in BPO Sector is more than double as compared to the Philippine average wage rate
- 17% of the 6,120 active job vacancies posted on government sponsored job site PhilJobNet in the third week of January were call center job openings
- A total of 1.2 million square meters of new call center office space was recorded in 2017



OUTSOURCING LANDSCAPE - PHILIPPINES

- 851 registered BPO Companies as of June, 2016
- 96% BPO services relate to Call Center activities or Computer Based activities which employs 575,300 people



CHALLENGES FACING THE FUTURE OF INTERNAL AUDITING

Strategic

- **Forward-looking** – Value beyond assurance, Think outside of the traditional box
- **Agility** - Change of Business Models (automated systems, regulations, data explosion, technology, culture, other risk factors)
- **Resourcing** - Availability of Competencies and Skills, Retention
- **Communication** - Communicate Audit Results when it matters

Tactical / Operational

- Building an Audit Plan
- Reliance on Automated Systems
- Increased use of Data Analytics



FORWARD-LOOKING

- Internal audit, being an independent function, is increasingly sought after by the boards and senior management to be their eyes and ears, especially now in the digital age and new economy
- In the *2015 Common Body of Knowledge (CBOK) Stakeholder Study* administered through The Institute of Internal Auditors Research Foundation, 1,124 stakeholders across 23 countries revealed that ACs would encourage internal audit to move beyond assurance to enhance its value proposition to their organizations.



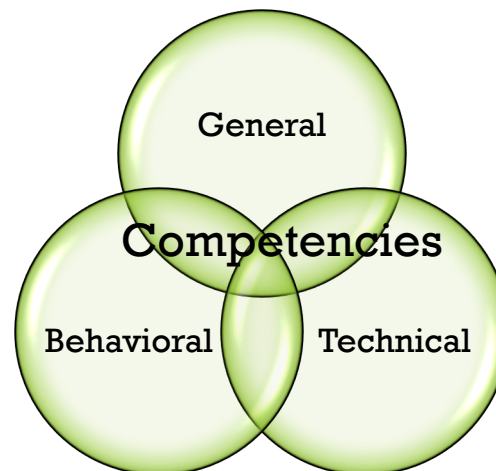
AGILITY

- Many audit departments are still developing inflexible long-term plans
- Frequent Regulatory Changes, Market Disruptions
- Unexpected Cybersecurity or data privacy threats
- Rapid feedback and changes to scope and direction of Audits (Rise of “Sprint” audits)



RESOURCING

- Sourcing Models – In-house, Co-sourced, Outsourced (with in-house management)
- Management can outsource the activity but not risk
- Manage Conflict of Interests
- Attract and retain talent with desired skills and competencies



COMMUNICATION

The single biggest problem in communication is the illusion that it has taken place.

George Bernard Shaw

- Discussion with auditee
- Factual Reports
- Precision
- Clarity
- Proper Background, scope and objective.
- Conciseness



BUILDING AUDIT PLAN

- Never before has the Audit Universe seen so much change
- Annual Planning is fading into irrelevance
- Risk planning needs to be more immediate and short-term
- CAEs are building contingencies into their planning
- Coordination with other independent risk and control functions (3 lines of defenses)

In December, 2018, The IIA announced a yearlong project to review and update the Three Lines of Defense, one of the best known risk management models.



RELIANCE ON AUTOMATED SYSTEMS

- Increased pressure to find new operational efficiencies through IT while simultaneously reducing downtime, improving service, and providing adequate security.
- Industry and government regulators require IT to comply with new or expanded sets of controls
- Rise of Continuous Monitoring and Auditing



USE OF DATA ANALYTICS

- In recent years, there has been a vast increase in the amount of data that is stored electronically

Types of Data Analytics

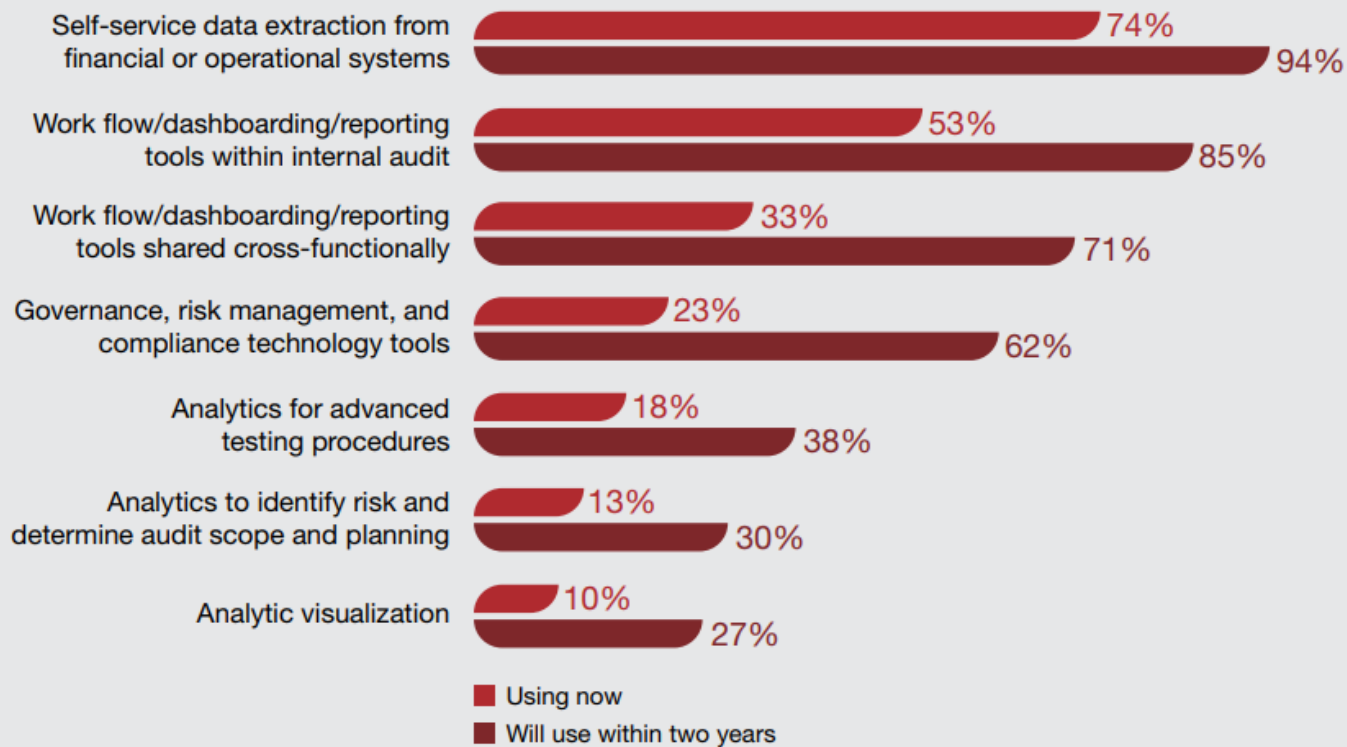
- **Retrospective statistical analysis** - used to gain deeper insight into important subprocesses in financial and operational areas of the organization.
- **Forward-looking models** - built to predict which areas of the business are riskier or simply require a greater level of focus.
- **Advanced visualization analytics** - used to help transform the organization by providing deep analytical insights and actionable information.



USE OF DATA ANALYTICS

- PwC's 2018 State of the Internal Audit Profession survey

Figure 5: Internal audit adoption of foundational tools



ENABLERS IN 2019

- Critical Thinking (Continuous Auditing, Automation)
- Adoption of Technology
- Utilize Data Analytics
- Increased focus on Fraud, Data and Cyber Security



KEY TAKEAWAYS

- Outsourcing industry is expected to continue growing
- IT and IT-Enabled Services are expected to lead the growth in near future
- IA Functions will increasingly require expertise of technologists, data analytics, privacy and cyber security specialists who also possess soft skills

Internal Audit 3.0

The future of internal audit is anchored by the 3A's: Assurance, Advising, Anticipating



SOURCES

- The IIA (IPPF, CBOK)
- CCAP
- PSA
- Microsourcing
- Statista



Q & A

For Questions, please contact:

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