

External Quality Assessment Are You Ready?

Institute of Internal Auditors

Objectives

- Describe frameworks used to assess the quality of an IA activity
- Discuss benefits, challenges, and success factors related to establishing and sustaining a QAIP
- Examine successful practices that can be used to prepare for an external assessment
- Most common observations

A Recent Survey – How familiar are you with the IIA QA Manual?

- Have the manual and use it 30.0%
- Have the manual and read it 15.0%
- Have the manual, haven't opened it 20.0%
- What manual? 35.0%

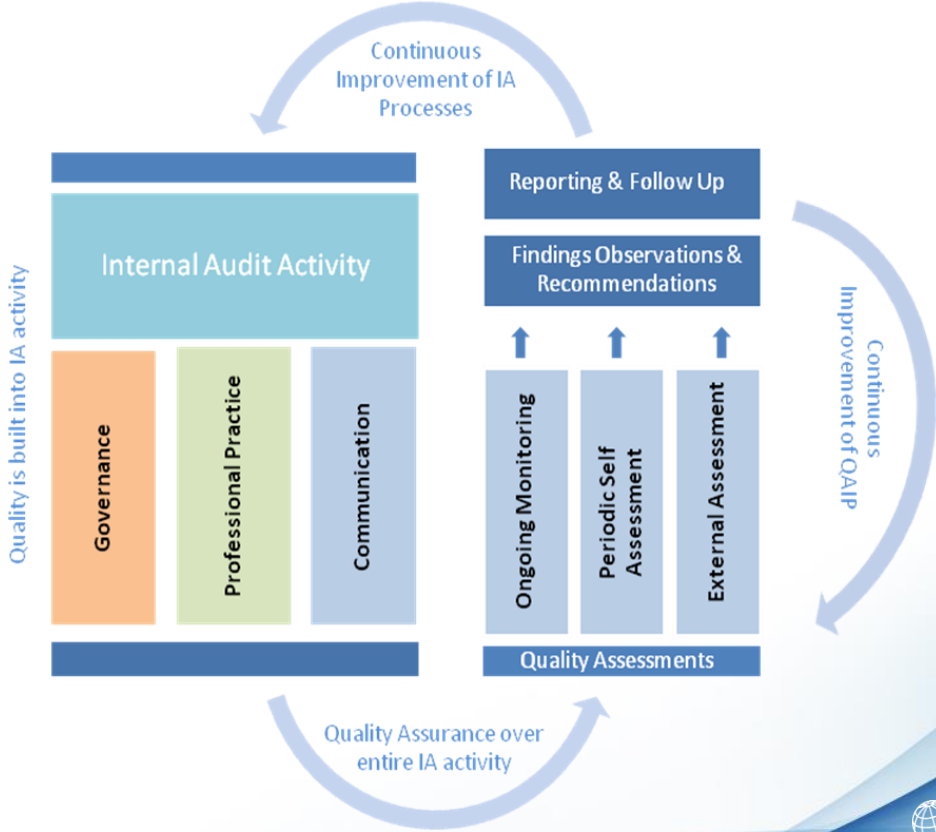
Quality Framework

Four Pillars of Internal Audit Quality

1. **IA Governance** (1000, 1100, 1300, Code of Ethics & The Definition of Internal Audit)
2. **IA Staff** (1200)
3. **IA Management** (2000, 2100, 2600 & 2450)
4. **IA Process** (2200, 2300, 2400 & 2500)

Quality Framework: Practice Guide

Quality Assurance and Improvement Program (QAIP) Framework



Path to Quality

Conformance Ratings

- Generally Conforms
- Partially Conforms
- Does Not Conform

Opinion

Maturity Level

- Optimizing
- Managed
- Integrated
- Evolving
- Initial

No opinion

Challenge Questions

1. Where is your Internal Audit activity on the path to quality (based on ratings or maturity)?
2. What level of quality does the Audit Committee expect Internal Audit to be at?
3. What level of quality does Senior Management expect Internal Audit to be at?
4. Is Internal Audit, the Audit Committee and Senior Management perfectly aligned in the expectation of quality (all 4 pillars)?
5. Where does Internal Audit need to be and do YOU have a strategy/or plan to get there?

Quality Assurance and Improvement Program (QAIP)

IPPF Check: Standard 1310

- Requirements of the QA & Improvement Program
 - Must include both internal and external assessments.
- Internal assessments must include:
 - Ongoing monitoring of the performance of the internal audit activity - *the day-to-day supervision, review, and measurement of the internal audit activity.*
 - Periodic self-assessments or assessments conducted to evaluate conformance with the Standards by persons within the organization with sufficient knowledge of internal audit practices.

Ongoing v. Periodic

Area	Ongoing	Periodic
Methodology and work papers	Supervisor Reviews & IPPF “Updates”	Independent Internal QA & Benchmarking
Client Surveys	Client Feedback on <u>Individual</u> Projects	Evaluation of <u>Overall</u> Results & Interviews
Performance Metrics	Budget Reviews, Cycle Times ...	Analysis of Results & Benchmarking

CAE must communicate results of the QAIP to senior management and the board.

Recent Survey: QAIP Challenges

Response	%
Size of IA activity	14.3%
Time or resource constraints	61.9%
Lack of perceived need or value	9.5%
Other priorities	9.5%
Other challenges:	4.8%

Challenge Questions

1. Does your Internal Audit activity have a formalized QAIP?
2. Have all Internal Audit staff and stakeholders “bought into” their QAIP responsibilities?
3. Is the QAIP “custom fitted for your company”?
4. Is “continuous improvement” the leading motto of your QAIP?

The External Assessment

Standard 1312 – External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:

- The form and frequency of external assessment; and
- The qualifications... including any potential conflict of interest.

Two Options

- *Full external assessment – performed by an independent individual or group.*
- *Self-assessment with Independent External Validation (SAIV) – internal assessment performed with an independent individual or group verifying results.*

Byproduct of the External Assessment

An external assessment may include **process improvement opportunities**.

- Although not a part of the conformance determination, industry best practices enable an Internal Audit Activity to move from “good” to “great”.
- When bidding an External Assessment, it is a good idea to include in the scope of your RFP.

Am I Ready for an EQA?

- Do I have an established QAIP?
 - Do I have satisfactory results in all areas?
- Have I performed a complete internal assessment?
 - Use the audit program contained in the QA manual
 - Report results
 - Track remediation; re-test, if necessary
 - You are ready when satisfied with results in all four areas –
 - Governance
 - Staff
 - Management
 - Process

Conformance and Beyond

Most Common Areas of Non-Conformance

5. *Standard 1210*: Proficiency of staff
4. *Standard 1010*: Recognition of IIA Standards in Audit Charter
3. *Standard 1011*: Confirm organizational independence by confirming annually the functional reporting responsibility to the Audit Committee.
2. *Standard 2100*: Performing consulting work
1. *Standard 1311*: Performing internal assessments

Beyond Conformance

- Strategic: Strategic internal audit plan
- Talent: Build, acquire or recruit right talent to meet needs of organization.
- Trends: Report pervasive trends across audit reports.
- Combined Assurance: Coordination with other assurance groups within organization and demonstrate how IA results impact overall risk profile