Internal Audit Step-by-Step Quality Assessment Guide

with focus on Self-Assessment with Independent Validation

Prepared by the Institute of Internal Auditors–Australia

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This Guide

- Explains what an Internal Audit Unit should have in place to promote quality assurance and continuous improvement
- Provides details on the process known as Self-Assessment with Independent Validation (SAIV) that can be used as an option to assess the quality of an Internal Audit unit
This Guide covers

- The Standards
- The Quality Standards
- Quality Assurance and Improvement Program
- External Assessments
- Self-Assessment with Independent Validation (SAIV)
- SAIV Templates
- Summary
Independent reviews of Internal Audit Units may be called:

- External Assessment
- External Quality Assessment
- Independent Quality Assessment
- Quality Assurance Review
- Quality Assessment Review
The Standards
The Standards

- The Standards for internal auditing worldwide are ‘The International Standards for the Professional Practice of Internal Auditing’ issued by the Institute of Internal Auditors
- The Standards form a key part of the ‘International Professional Practices Framework’ (IPPF)
The Standards

- Revised Standards implemented in 2001
- They mandated for Internal Audit units to have an independent External Assessment at least once every 5 years
- The effective date for the first independent External Assessment commenced on 1 January 2002
- The first 5 years was up on 1 January 2007
- New Internal Audit units have 5 years from their date of commencement
- The IPPF and revised Standards were released in 2009
- The IPPF and Standards were again revised in 2013
Why have Standards?

- Provide the principles that represent the practice of internal auditing as it should be
- Foster improved internal audit process and operations
- Provide a framework for performing and promoting a range of value-adding internal audit activities
- Establish the basis for evaluation of internal audit performance
Who writes the Standards?

- The Internal Audit Standards Board of The Institute of Internal Auditors (IIA)
- Comprises IIA members from around the world
- There is also an independent oversight body and a formal feedback process for exposure drafts before finalisation
The IPPF

International Professional Practices Framework for Internal Auditing
Definition of Internal Auditing

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”
The Standards

- The Standards are principle-based (not rule-based)
- They provide a framework for performing and promoting internal audit
- The Standards are mandatory requirements consisting of:
  - Statements of basic requirements for internal auditing
  - Requirements that are internationally applicable at organisation and individual levels
  - Interpretations which clarify terms or concepts within the statements
  - Glossary of terms
The Standards

- The Standards are mandatory and comprise:
  - Attribute Standards
  - Performance Standards

- Also comprises Implementation Standards:
  - A = Assurance
  - C = Consulting
Attribute Standards

1000 – Purpose, Authority and Responsibility
1100 – Independence and Objectivity
1200 – Proficiency and Due Professional Care
1300 – Quality Assurance and Improvement Program
Performance Standards

2000 – Managing the Internal Audit Activity
2100 – Nature of Work
2200 – Engagement Planning
2300 – Performing the Engagement
2400 – Communicating Results
2500 – Monitoring Progress
2600 – Communicating the Acceptance of Risks
The Glossary

- Contains useful definitions, explains terminology, and expands meanings
- The Glossary is part of the Standards and needs to be read in conjunction with the Standards to gain greater understanding
- Contains definitions for:
  - Assurance services
  - Consulting services
Code of Ethics

- States the principles and expectations governing the behaviour of individuals and organisations in the conduct of internal auditing
- Describes the minimum requirements for conduct and behaviour expectations
- Covers:
  - Integrity
  - Objectivity
  - Confidentiality
  - Competency
Practice Advisories

- Optional guidance (not mandatory)
- Contains strongly recommended guidance for conducting internal audit activities
- Addresses internal audit approach and methodologies, but does not detail processes or procedures
- Includes practices relating to international, country, or industry-specific issues, specific types of engagements, and legal or regulatory issues
Practice Guides

- Optional guidance (not mandatory)
- Contains detailed strongly recommended guidance for conducting internal audit activities
- Includes processes and procedures, tools and techniques, programs, and step-by-step approaches, as well as examples of deliverables
Position Papers

- Optional guidance (not mandatory)
- Contains strongly recommended guidance for conducting internal audit activities
- Assists a wide range of interested parties, including those not in the internal audit profession, in understanding significant governance, risk, or control issues, and delineating the related roles and responsibilities of internal auditing
Who is the Chief Audit Executive?

- The top position within the organisation responsible for Internal Audit activities – normally a person in a senior position responsible for effectively managing the internal audit activity.
- The specific job title of the Chief Audit Executive may vary across organisations.
- Where Internal Audit activities are obtained from outside service providers, the Chief Audit Executive is the person responsible for overseeing the service contract and the quality of the services.
The Quality Standards
Standard 1300

Quality Assurance and Improvement Program
The overarching standard on quality in internal auditing

“The Chief Audit Executive must develop and maintain a Quality Assurance and Improvement Program that covers all aspects of the internal audit activity”

Source: Glossary to the IIA Standards
Standard 1310

Requirements of the Quality Assurance and Improvement Program

“The Quality Assurance and Improvement Program must include both internal and external assessments”
Internal Assessments

"Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices"
“External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Chief Audit Executive must discuss with the Board:

- The form and frequency of external assessment
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest”
Standard 1320

Reporting on the Quality Assurance and Improvement Program

“The Chief Audit Executive must communicate the results of the Quality Assurance and Improvement Program to senior management and the Board”
Standard 1321

Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”

“The Chief Audit Executive may state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the Quality Assurance and Improvement Program support this statement”
Standard 1322

Disclosure of Non-conformance

“When non-conformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards impacts the overall scope or operation of the internal audit activity, the Chief Audit Executive must disclose the non-conformance and the impact to senior management and the Board”
Quality Assurance and Improvement Program
Quality Assurance and Improvement Program

Needs to have:

- Internal Assessments – Ongoing
- Internal Assessments – Periodic
- External Assessments
Internal Assessments – Ongoing

Examples:

- Work paper reviews
- Internal Audit staff reviews
- Performance evaluations
- Actual versus budgeted analysis
- Monitoring metrics
- Customer feedback surveys
- Performance measures (KPIs)
Internal Assessments – Periodic

- Self-assessment
- Review of conformance with the Standards
- Review Internal Audit Charter for conformance with the Standards
External Assessments

- At least once every 5 years
- By a qualified, independent assessor or assessment team
- The assessor must be from outside the organisation to be independent
How do we prove we are a quality Internal Audit unit?

<table>
<thead>
<tr>
<th>Quality Assurance and Improvement Program including External Assessments</th>
<th>Performance Measures</th>
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<td>Reviews by External Audit</td>
<td>Reviews by Regulatory Bodies</td>
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External Assessments
An External Assessment covers

- Conformance to the Definition of Internal Auditing
- Conformance with the Code of Ethics
- Conformance to the Standards
- Whether the expectations of Internal Audit by Management and the Audit Committee are being met
- Opportunities for improvement
It provides an independent view

- Does Internal Audit meet professional standards?
- Can things be done better?
- Should more be done?
- Is maximum value being received for the money spent on Internal Audit?
- Can Internal Audit add more value to Management and the Audit Committee?
- Can Internal Audit enhance its image, perceptions, and credibility within the organisation?
It also provides opportunities

- Gain added credibility with Management and the Audit Committee
- Show leadership in the Internal Audit profession
- Leverage a positive marketing opportunity for Internal Audit
- Show professionalism and conformance to the Internal Audit Standards
- Identify opportunities for improvement within Internal Audit
- Prove Internal Audit’s worth to its customers
External Assessments – Methods

1. External Assessment with the review conducted by an assessor or assessment team independent of the organisation
2. Peer Reviews between 3 or more organisations
3. Self-Assessment followed by an Independent Validation (SAIV) conducted by an external Independent Validator
1. Independent External Assessment

- The organisation engages an assessor or assessment team to conduct an independent Quality Assessment of the Internal Audit Unit

- The assessor needs to be independent of the organisation
2. Peer Review

- Must be 3 or more organisations to pass the independence test
- Useful for similar business or industry sectors
- In Australia has been used in the University, Local Government and Health sectors
- The assessor needs to be independent of the organisation
3. Self-Assessment with Independent Validation (SAIV)

- The Internal Audit Unit conducts its own Self-Assessment and determines its conformance with the Standards.
- An Independent Validator is selected who reviews documentation, conducts a small number of confirmatory interviews, and performs limited testing.
- The Independent Validator agrees or disagrees with the Self-Assessment.
- A single report is issued.
- The Independent Validator needs to be independent of the organisation.
Who can conduct Quality Assessments?

- Independent, qualified assessors or assessment teams – ideally should have senior management experience in Internal Audit
- Assessors should be knowledgeable about the Standards and Quality Assessment process
- Preferably Certified Internal Auditors (CIAs)
- May have Certified Information Systems Auditors (CISAs) involved if a Quality Assessment calls for specific review of IT audit
Who does conduct Quality Assessments?

- Professional service firms
- Outsourced providers of Internal Audit services
- Independent consultants
- The Institute of Internal Auditors
Self-Assessment with Independent Validation (SAIV)
Self-Assessment with Independent Validation (SAIV)

- SAIV can be a cost-effective method for conducting a Quality Assessment
- This method is promoted by the Institute of Internal Auditors
The SAIV Process

- Internal Audit includes a Quality Assessment in its Annual Audit Plan in the year it is due
- Internal Audit conducts its own Self-Assessment
- An Independent Validator then conducts the Independent Validation
The SAIV Process

Refer ‘QA SAIV Process’ handout for details of the SAIV process that covers:

- Before the Self-Assessment
- Conducting the Self-Assessment
- Conducting the Independent Validation
- Informing Management
- Monitoring and Follow-up
Before the Self-Assessment

The Internal Audit unit to be assessed will:

- Agree the Quality Assessment objectives with the Audit Committee
- Schedule a preliminary meeting between the Chief Audit Executive and the Independent Validator
- Agree timeframe between the Chief Audit Executive and the Independent Validator
Conducting the Self-Assessment

- Self-Assessment commences
- Work Paper File is commenced (QA Work Paper Index)
- Internal Audit Unit operations are reviewed (QA Analysis Template)
- Internal Audit Unit Quality Assurance and Improvement Program (QAIP) is reviewed (QA QAIP Checklist)
Conducting the Self–Assessment

- Internal audit engagement Work Papers are reviewed
  (QA Work Paper Analysis Template)
- Evaluation against the Standards is conducted
  (Appendix E – QA Report Template)
- QA Self–Assessment Report is prepared
  (QA Report Template)
- QA Self–Assessment Report is sent to the Independent Validator
Conducting the Independent Validation

- Independent Validation commences
- Opening Meeting
- Management interviews are conducted (QA Management Interview Template)
- Audit Committee Member interviews are conducted (QA Audit Committee Member Interview Template)
- Internal Audit Unit Staff interviews are conducted (QA Internal Audit Staff Interview Template)
- Self-Assessment Work Paper File and Report are reviewed
Conducting the Independent Validation

- Internal Audit Unit Quality Assurance and Improvement Program (QAIP) is reviewed (QA QAIP Checklist)
- Internal Audit engagement Work Papers are reviewed (QA Work Paper Analysis Template)
- Evaluation against the Standards is conducted (Appendix E – QA Report Template)
- Independent Validation Statement is included in the Self-Assessment Report (QAR Report Template)
- Closing Meeting
Important Note

- The Independent Validator can issue a dissenting report if agreement cannot be reached with the Chief Audit Executive on the outcomes of the Quality Assessment.
Informing Management

- Report issued to Head of Organisation and Senior Management
- Report issued to Audit Committee
- Consider a joint presentation to the Audit Committee by the Chief Audit Executive and the Independent Validator
Monitoring and Follow-up

- Improvements to be implemented by Internal Audit
- Implementation of improvements to be monitored by the Audit Committee
- Implementation of improvements to be followed-up at the next Quality Assessment
SAIV Templates
SAIV Templates

- QA Work Paper Index
- QA Interview Templates
- QA Analysis Template
- QA QAIP Checklist
- QA Work Paper Analysis Template
- QA Report Template
QA Work Paper Index

- Used as an index for the QA Work Paper File when it is commenced by the Internal Audit Unit for the Self-Assessment
- It assists collection of relevant documents for the QA that will be also be necessary for the Independent Validation
QA Interview Templates

- There are 3 separate Interview Templates:
  - Management
  - Audit Committee Members
  - Internal Audit Unit Staff

- They are used as a guide to ask questions and obtain feedback for the Quality Assessment
QA Analysis Template

- To be completed by the Internal Audit Self-Assessment and reviewed by the Independent Validator
- It lists all the Standards and provides examples of evidence necessary for an assessment to be made on conformance with the Standards
QA QAIP Checklist

- To be completed by the Internal Audit Self-Assessment and reviewed by the Independent Validator
- It lists examples that can be used to determine if Internal Audit has an effective Quality Assurance and Improvement Program (QAIP)
QA Work Paper Analysis Template

- To be completed by the Internal Audit Self-Assessment and reviewed by the Independent Validator
- It lists the Standards relevant to performing an internal audit engagement
- The number of internal audit engagements to be selected for review should be jointly agreed by Internal Audit and the Independent Validator
- Each internal audit engagement is assessed as ‘Adequate’ or ‘Not Adequate’ in relation to conformance with the Standards
QA Report Template

- Draft Self-Assessment report is completed by Internal Audit
- At this stage Internal Audit will take the information in the completed QA Analysis Template and complete the draft report section Appendix E – ‘Evaluation against the Standards’ to rate each Standard as:
  - Generally conforms (green)
  - Partially conforms (yellow)
  - Does not conform (red)
QA Report Template

- The onsite Independent Validation is then conducted
- When the Independent Validator has completed the review, the report is finalised and the Independent Validation Statement included
- The Independent Validation Statement allows the Independent Validator to ‘Agree’ or ‘Do Not Agree’ with the findings of the Self-Assessment
QA Report Template

- Where there may be differences of opinion between the Chief Audit Executive and the Independent Validator, there should be discussion and negotiation to resolve these differences.

- Where differences of opinion cannot be resolved, the Independent Validator can include their dissenting comments in the report.

- Where the dissenting comments are significant, the Independent Validator may consider issuing a separate dissenting report.
Summary
Summary

- Every Internal Audit unit needs to have a documented Quality Assurance and Improvement Program (QAIP) in place.
- There needs to be a program of both Internal Assessments and External Assessments.
- An External Assessment (QA) has the potential to get the Chief Audit Executive added credibility with Management and the Audit Committee.
Summary

- A Quality Assessment is about improving internal audit.
- A Quality Assessment should not be treated as a ‘pass’ or ‘fail’ exercise.
- A Quality Assessment needs to be planned, conducted and completed on time, on budget and be a quality product – so that it demonstrates best practice.