Knowledge Report
Attributes of Highly Effective Quality Assurance
And Improvement Programs
January 2010
About This Report

As part of its services, The IIA will publish a series of reports on topics of appeal to chief audit executives (CAEs) and other internal auditors that provide leading practices based on survey results and recommendations from audit professionals in the field.

Please note that The IIA surveys referenced in this report are not statistically based and their results are not representative of the entire population of internal auditors. Rather, they are benchmarking surveys based on the responses of CAEs and other internal audit professionals who are members of The IIA’s Global Audit Information Network (GAIN). In addition, results from these surveys are solely intended to provide information (i.e., tools, resources, and/or other knowledge) that is based on the responses of survey participants only.
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Executive Summary

As an organization evolves and grows, its operations and quality processes and controls must be refined to match the changes taking place internally and externally. Consequently, organizations must make an ongoing commitment to improving the quality and assurance of its services. As part of their work, internal auditors must have an in-depth understanding of the organization’s culture, systems, and processes to provide assurance that:

- Internal controls are adequate to mitigate risks.
- Risk management and governance processes are effective and efficient.
- Organizational objectives are met.

One way chief audit executives (CAEs) can ensure internal audit activities meet these three goals is through the implementation of a quality assurance and improvement program (QAIP). “As professionals, internal auditors have an obligation to adhere to the Standards and Code of Ethics, which are the cornerstones of our professional foundation,” says Denny K. Beran, CIA, CCSA, senior vice president of internal audit for Fortune 250 department store retailer JCPenney. “Having a quality assurance and improvement program ensures our work adheres to the guidelines set forth by our profession and enables us to obtain best practice information on what we need to do to improve our work and add value.”

This Knowledge Report describes leading QAIP practices from The IIA’s Flash surveys and GAIN Annual Benchmarking Study as well as 15 attributes from high-performing quality assurance programs and interviews with three CAEs whose QAIPs exemplify each of these attributes. These leading practices will enable CAEs to benchmark their quality assurance and improvement activities and determine whether their internal audit activities are on the right track to ensuring quality and adding value.

Leading Practices

According to IIA intelligence, highly effective QAIPs have the following three traits:

1. **They have dedicated staff who are passionate about quality assurance and improvement.** This person or group of individuals is responsible for performing the internal self-assessment, gathering all information in preparation for the external QA, and performing ongoing monitoring of the internal audit activity.

2. **They leverage the use of technology and invest in the right technology tools based on the internal audit activity’s quality assurance and improvement needs.** Tools are used to document all internal audit work papers as well as secure information in a central location.

3. **They have the support of senior management and the audit committee.** Getting the support of these two entities is especially important when performing an external QA and in ensuring internal auditors are onboard with quality assurance activities.

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1 The term Standards refers to the International Standards for the Professional Practice of Internal Auditing.
2 The list of 15 attributes was obtained from 10 external quality assessments (QAs) performed by The IIA in 2009.
3 The three traits were obtained from intelligence gathered from IIA Flash surveys, the GAIN Annual Benchmarking Study, 10 external QAs from organizations that are in conformance with The IIA’s Standards, and interviews with three CAEs whose internal audit activities exemplify highly effective quality assurance and improvement processes.
Besides the three overarching traits, intelligence from 10 external QAs performed by The IIA has unveiled a list of 15 attributes found in highly effective quality assurance and improvement programs. These 15 attributes are:

1. The CAE is actively involved in the organization, including involvement in initiatives intended to strengthen the organization's governance, risk management, and internal control processes. Similarly, the internal audit activity works closely with other governance and monitoring functions, including the organization's risk management unit or personnel.
2. The internal audit activity has an annual risk assessment process that is linked to the organization's risk management program or process. In addition, the internal audit activity continuously monitors its audit universe and risk assessment framework resulting in more focused, long-term audit planning and efficient audit schedules.
3. The internal audit activity uses technology-based audit tools to enhance its productivity and effectiveness.
4. The CAE has made a commitment to the continuing education and training of internal audit staff and encourages internal auditors to acquire professional certifications. The CAE also encourages internal auditors to be actively involved in the profession (e.g., holding leadership positions in The IIA and participating as volunteers for external QAs.)
5. The internal audit activity demonstrates a continued commitment to quality in the services it provides.
6. The internal audit activity has a high level of credibility and excellent reputation with clients and organization stakeholders.
7. The internal audit activity has a comprehensive charter that clearly identifies the roles and responsibilities of all internal audit staff.
8. The internal audit activity coordinates optimally with the external auditor.
9. The internal audit activity provides concise audit reports that focus on risk and follows up on management action plans.
10. The internal audit plan outlines specific performance milestones to increase efficiencies within the activity leading to the presence of highly productive staff.
11. The CAE holds open discussions with staff for the continuous improvement of the internal audit activity. Topics discussed include future work plans, controls testing, and internal audit techniques.
12. There is excellent alignment among the internal audit activity, audit committee, and senior management team. In addition, the CAE and internal audit activity conduct periodic training for the audit committee.
13. The organization has a high level of confidence in the internal audit activity.
14. The internal audit activity has a high level of support from the organization's senior management team, audit committee and/or board, and other stakeholders.
15. The internal audit activity includes one or more staff members with experience in IT, data analytics, or IT auditing.
What Is a Quality Assurance and Improvement Program?

According to the latest data from The IIA’s GAIN Annual Benchmarking Study, 72 percent of all CAEs participating in the study stated that their internal audit activity has a quality assurance program (refer to Table 1 on this page for a breakdown of responses by different organizational traits). Similarly, a January 2009 IIA Flash survey of 198 participants found that nearly 70 percent also have a QAIP for their internal audit activity. These findings are consistent with IIA Standard 1300: Quality Assurance and Improvement Program, which states that CAEs must develop and maintain a QAIP that covers all aspects of the internal audit activity and helps internal auditors add value.

Table 1. Presence of a QAIP
(Source: GAIN Annual Benchmarking Study, December 2009)

<table>
<thead>
<tr>
<th>Demographic Trait</th>
<th>Presence of Program</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organization Type</strong></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>72%</td>
</tr>
<tr>
<td>Private</td>
<td>68%</td>
</tr>
<tr>
<td>Government</td>
<td>80%</td>
</tr>
<tr>
<td><strong>Top Three Industries</strong></td>
<td></td>
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<tr>
<td>Financial Services/Banking/Insurance</td>
<td>80%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>56%</td>
</tr>
<tr>
<td>Utilities</td>
<td>85%</td>
</tr>
<tr>
<td><strong>Staff Size</strong></td>
<td></td>
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<tr>
<td>1–5 internal auditors</td>
<td>51%</td>
</tr>
<tr>
<td>6–10 internal auditors</td>
<td>56%</td>
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<tr>
<td>11–15 internal auditors</td>
<td>75%</td>
</tr>
<tr>
<td>16–25 internal auditors</td>
<td>89%</td>
</tr>
<tr>
<td>26–50 internal auditors</td>
<td>90%</td>
</tr>
<tr>
<td>50+ internal auditors</td>
<td>90%</td>
</tr>
<tr>
<td><strong>All respondents</strong></td>
<td>72%</td>
</tr>
</tbody>
</table>

Specifically, an effective QAIP enables CAEs to evaluate the internal audit activity’s conformance with the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). Furthermore, the program must assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. QAIPs that are in conformance with the Standards consist of three elements:

- Ongoing internal monitoring.
- Periodic internal QAs.
- Periodic external QAs.

Following is a description of each program element. (For more information on the different IIA Standards pertaining to QAIPs refer to Table 2 on page 10. Appendix B on page 29 contains a copy of IIA Practice Advisory 1300-1, which provides guidelines CAEs can use in implementing a QAIP for the first time. Finally, Appendix D on page 31 provides a sample QAIP policy.)

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4 As of December 2009, a total of 600 CAEs from organizations around the world representing all industry groups and internal audit activities of all staff sizes participate in the GAIN Annual Benchmarking Study. For more information on the Annual Benchmarking Study visit ‘The IIA’s Web site, www.theiia.org/guidance/benchmarking/gain/.

5 “Quality Assurance Improvement Program” (January 2009); a total of 1,726 invitations were sent to members of The IIA’s Flash Survey Network of which 198 internal auditors mostly at the management level or above participated in the survey representing all industry groups and internal audit staff sizes.
Ongoing Monitoring

Ongoing monitoring is a process that assesses the quality of internal control activities over time and occurs throughout the daily course of internal audit work. Ongoing monitoring activities include those pertaining to regular management and supervisory efforts, such as reviewing reconciliations and summary reports.

Data from the GAIN Annual Benchmarking Study found that all CAEs participating in the study have a mechanism in place to monitor the quality of their internal audit activities. According to the study, 59 percent of all CAEs conduct ongoing monitoring of internal audit work and 41 percent do so periodically.

Leading Practices. One way to monitor internal audit efforts is through the use of performance metrics. For example, Denny Beran, CAE of JCPenney, keeps track of several performance metrics including:

- **Percent of internal audit plan completed.** Beran’s group performs 140 to 170 regular audits per year, which take 200 to 250 hours to complete, as well as 50 to 60 department priority audits per year, which take 400 to 700 hours to complete.
- **Cost-exceptions.** “We challenge ourselves to identify cost exceptions,” Beran says. “This way we can demonstrate how our work helps to pay for itself.”
- **Audit cycle time devoted to each audit.** Beran’s group keeps track of how much time is devoted to each audit from its start to the issuance of the report. Metrics used to track time are different depending on the type of audit (e.g., department priority audits, regular audits, special investigations, and management requests).
- **Training hours.** Internal auditors working in JCPenney are required to complete a minimum of 40 hours of training per year. Training is provided internally and externally, but the majority is external. For instance, new internal auditors attend The IIA’s Tools and Techniques seminar, a project management course, and various soft skills courses including how to improve communications, and how to enhance written reports.
- **Professional certifications.** According to Beran, 80 percent of his entire staff has a certification. However, excluding new internal auditors and IT auditors who are mostly

Internal Audit Activity Performance Metrics

Interviewees who provided information for this report use a wide number of performance metrics as part of their ongoing monitoring efforts. These include:

- Percent of internal audit plan completed (e.g., percent of audits completed versus those in progress).
- Cost-exceptions.
- Audit cycle time devoted to each audit.
- Training hours.
- Number of staff with professional designations and types of certification.
- Balanced scorecard results.
- Quarterly reports of group productivity hours (i.e., number of productive hours versus nonproductive hours).
- Audit report reviews to ensure they provide information that adds value to the client.
- Answering audit client inquiries within 24 hours.
- Evaluations of internal auditors after every audit.

Internal Vs. External Quality Assessments

Internal quality assessments (QAs) consist of ongoing internal evaluations of the internal audit activity, coupled with periodic self-assessments and reviews. On the other hand, external QAs require an outside team of independent reviewers to evaluate an internal audit activity’s conformance with the Standards, the use of successful practices, and the efficiency and effectiveness of the internal audit activity.

programmers, 100 percent of his staff have at least one professional designation and many have two or more designations.

- **Data from client surveys on key department priority audits** to determine whether internal auditors are responding to client needs and performing their work in a satisfactory manner. Surveys are completed on paper or via e-mail.

SRP’s Corporate Auditor Rick Wardrip⁶ keeps track of similar performance metrics. SRP is a major utility company in Phoenix. Besides performing client surveys at the end of each audit and using a balanced scorecard, Wardrip has been tracking his group’s productivity every quarter during the past five years. (Appendix E on page 32 provides a sample balanced scorecard.)

In addition, Wardrip reviews audit reports to ensure they provide information that adds value and keeps a record of the percentage of audits completed throughout the year versus those in process. Finally, audit managers evaluate internal auditors after every audit and all auditors are expected to comply with the department’s 24-hour rule (i.e., clients must be contacted within 24 hours after their initial inquiry by a member of the internal audit activity). For more information on ways CAEs can measure the performance of their internal audit activity, read *Measuring Internal Audit Performance* (PDF, 779 KB).

**Internal QAs**

An internal QA includes ongoing monitoring and periodic reviews of the internal audit activity’s performance through self-assessment performed by individuals in the organization with sufficient knowledge on audit practices.⁷ To be effective, ongoing monitoring should be an integral part of the internal audit activity’s supervision, review, and measurement. In addition, ongoing monitoring should be incorporated into the policies and practices used to manage the internal audit activity and employ processes, tools, and information considered necessary to evaluate compliance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

**Leading Practices.** Recent data pertaining to internal QA practices is found on the Annual Benchmarking Study. According to the study, tools used for ongoing internal assessments are:

- Engagement supervision (92 percent).
- Audit plan completion and summary reports (90 percent).
- Feedback (88 percent).
- Checklists (81 percent).
- Timekeeping systems (72 percent).
- Project budgets (68 percent).
- Cost recoveries (14 percent).

The study also describes methods used for periodic internal assessments. These include:

- Self-assessments (78 percent).
- Benchmarking (64 percent).
- In-depth interviews (43 percent).
- Self-assessments and preparation (28 percent).

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⁶ Rick Wardrip works as the CAE for SRP’s internal audit activity.

⁷ At a minimum, sufficient knowledge on audit practices requires an understanding of all elements of the International Professional Practices Framework.
Finally, the study describes the person or function with whom the results of all internal QAs are shared. Besides the audit committee (76 percent) and senior management (64 percent), internal QA results are shared with the organization’s external auditors (36 percent), the board of directors (16 percent), and other internal and external stakeholders (22 percent). Only 12 percent of all respondents do not share internal QA results with anyone.

**External QAs**

According to the GAIN Annual Benchmarking Study, 61 percent of all internal audit activities have had an external QA performed at one point. In fact, an October 2008 Flash survey[^8] found that of the 264 CAEs who participated in the survey, 80 percent have established an ongoing program of periodic external reviews and 65 percent consider the external review mandatory.

An external QA is performed by an outside team of independent reviewers[^9] to evaluate an internal audit activity’s conformance with the Standards. The qualified reviewer or review team consists of individuals who are competent in the professional practice of internal auditing and the external assessment process.

When evaluating the competency of the reviewer and review team, CAEs should consider:

- The internal audit experience and credentials of the individuals performing the review.
- The size and complexity of the organizations that the reviewers have been associated with in relation to the organization for which the internal audit activity is being assessed.
- The need for particular sector, industry, or technical knowledge.

**Reasons For Performing an External QA**

IIA publications have documented the reasons why CAEs choose to perform an external QA of their internal audit activity. Here are some of the main reasons collected from several IIA publications and surveys:

- To set a good example for others to follow, as stated by Mary Ann Riesenber, AARP’s director of audit and advisory services: “We are constantly emphasizing to our audit clients the importance of keeping up with industry best practices, so it was only fitting that we follow our own advice and set a good example for others to follow.” (Source: *Internal Auditor, August 2006, “A Checkup for the Audit Shop”*)
- Beside determining their internal audit activity’s level of compliance with the Standards, CAEs choose to have an external QA to:
  - Benchmark the internal audit activity against professional standards for the department.
  - Measure compliance with other regulatory standards (e.g., the Yellow Book).
  - Obtain reassurance that the internal audit activity is performing all of the activities that are considered successful practice.
  - Provide evidence of the department’s quality to stakeholders. (Source: The IIARF’s *IIA Standard 1312-External Quality Assessments: Results, Tools, Techniques, and Lessons Learned*)

[^8]: “Chief Audit Executives Position on External Assessments of the Internal Activity” (October 2008); a total of 1,400 invitations were sent of which 264 internal auditors, mostly at the management level or above, participated in the survey representing all industry groups and internal audit staff sizes.

[^9]: An independent reviewer or review team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.
IIA Standard 1300: Quality Assurance and Improvement Program

The CAE must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

IIA Standard 1310: Requirements of the Quality Assurance and Improvement Program

The quality assurance and improvement program must include both internal and external assessments.

IIA Standard 1311: Internal Assessments

Internal assessments must include:
- Ongoing monitoring of the performance of the internal audit activity.
- Periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The CAE must discuss with the board:
- The need for more frequent external assessments.
- The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.

IIA Standard 1320: Reporting on the Quality Assurance and Improvement Program

The CAE must communicate the results of the quality assurance and improvement program to senior management and the board.

IIA Standard 1321: Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"

The CAE 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.

When nonconformance 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 CAE must disclose the nonconformance and the impact to senior management and the board.

IIA Standard 1322: Disclosure of Nonconformance

Preparing for the External QA. Many CAEs often find it difficult to prepare for an external QA. Before the external review team arrives, CAEs can help to expedite the review process by following the recommendations below:

- Become familiar with the Standards pertaining to the quality assessment process (refer to Table 2 on this page).
- Review The IIA’s Quality Assessment Manual to understand what the external QA entails. Additionally, participate in local IIA training or an external QA seminar to understand the process better.
- Organize information needed by the external review team and review the materials as you would an audit (i.e., be thorough, systematic, and comprehensive in the preparation).
- Perform an internal self-assessment in accordance with Standard 1311, allowing enough time between the internal and external QA to address issues identified in the self-review.
- Similarly, if you have the resources and time, do an independent readiness review (i.e., a quick check or assessment to identify any significant gaps). After the readiness review, create a matrix of observations, recommendations, and action items to facilitate clearance of external QA items noted in the review.
- Make sure policies, procedures, and performance metrics are well-documented and up-to-date.
Let internal audit staff know ahead of time that the review will happen so that they can be available to answer questions and complete questionnaires.

Take time to explain the regulatory environment in which the company operates to reviewers.

Review workpaper and audit reports.

Make sure internal audit staff are getting the training they need. In addition, provide staff with training in quality assessment so they can understand the QA’s objective, scope, and process.

Attend the first and last meeting with the review team to keep staff invested and involved in the QA process.

Above all, keep an open mind by treating the exercise as an opportunity to learn. Although the review is about quality assessment, the underlying purpose is to improve the internal audit activity.

**Leading Practices.** The GAIN Annual Benchmarking Study discusses a number of leading practices pertaining to the performance of external QAs. Types of external QAs include a self-assessment with independent validation (26 percent of all respondents) and an independent, external assessment (74 percent of all respondents). These percentages remain pretty constant in public, private, and government-sector organizations. In terms of frequency, 72 percent of CAEs perform an external QA every five years, 24 percent perform them every 3–4 years, and 2 percent every 1–2 years. The same October 2008 Flash survey referenced earlier found that the majority of CAEs perform the external QA every five years (68 percent) compared to every 3–4 years (24 percent) and 1–2 years (7 percent).

The Annual Benchmarking Study also discusses the key elements examined during the external QA. According to all participants, key elements examined include:

- The internal audit activity’s charter (98 percent).
- Compliance with the Standards (97 percent).
- The mix of knowledge and expertise in internal audit staff (92 percent).
- Tools and techniques employed by internal auditors (91 percent).
- Management expectations (89 percent).
- The internal audit activity’s added value (83 percent).
- The internal audit activity’s integration with the governance process (69 percent).
- Compliance with legislation and regulations (54 percent).

**Leading External QA Practices**

According to the latest Annual Benchmarking Study findings, 61 percent of the internal audit activities represented in the study perform an external QA. Key external QA practices include:

- **Type of External QA.** 26 percent of all participants perform a self-assessment with independent validation and 74 percent perform an independent, external assessment.
- **Frequency.** 72 percent of all participants perform the external QA every five years as recommended by the Standards.
- **Key Elements Included.** Elements examined during the external QA include the audit charter (98 percent), compliance with the Standards (97 percent), and the mix of knowledge and expertise of internal audit staff (92 percent).
- **Sharing of Results.** The majority of respondents share the results with the audit committee (97 percent), senior management team (89 percent), and external auditors (61 percent).

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10 “Chief Audit Executives Position on External Assessments of the Internal Activity” (October 2008)
In addition, CAEs participating in the Annual Benchmarking Study share external QA results with the audit committee (97 percent), senior management (89 percent), external auditors (61 percent), the board of directors (35 percent), and other stakeholders (29 percent). Only 1 percent of CAEs do not share external QA results with anyone. (Appendix C on page 30 provides a sample of an audit committee external QA summary.)
Leading Quality Assurance and Improvement Practices

Effective QAIPs can help internal audit activities add value to their organization. This is particularly true of the external QA as it enables an independent third party to assess the internal audit activity’s daily operations with a “fresh pair of eyes.” However, not all CAEs have the resources or internal support to get a QAIP up and running. These CAEs can benefit from the leading practices in this section collected from various IIA intelligence materials.11

According to IIA intelligence, effective QAIPs share the following three overarching themes:

1. They have a dedicated staff. According to Rick Wardrip, one of the most important aspects of establishing an effective QAIP is assigning a dedicated person to manage the internal audit activity’s quality assurance efforts.

“It is essential to assign a dedicated staff or person to oversee the QAIP and give this person the necessary resources to lead the program,” says Wardrip. “One way to ensure the right resources are secured is to get the buy-in and support of senior management. To do so, CAEs need to show why the program is important, what value can be added, and why it is needed.”

Megan Scott-Kakures, vice president and general auditor of Edison International, the parent company of Southern California Edison and Edison Mission Group, agrees with Wardrip. As Scott-Kakures explains, CAEs need to consider hiring one or several dedicated staff members, depending on the size of the internal audit activity, who are passionate about quality assurance. Scott-Kakures’ quality assurance manager is Bryan Sorensen, CIA. He is assisted by audit staff members who conduct independent workpaper reviews and help with the internal QA. Department teams are established to develop workpaper and audit report formats as well as standard work practices.

Wardrip and Beran also leverage the use of internal audit staff as part of their quality assurance and improvement efforts. Wardrip’s quality assurance program consists of an audit consultant and three managers. The audit consultant, who is a full-time employee, is in charge of the internal audit activity’s quality assurance and improvement efforts including performing the internal QA, coordinating client surveys and compiling feedback, and following up on audit recommendations. Similarly, Beran’s quality assurance program consists of a group of five senior managers who are

Leading Quality Assurance and Improvement Program Practices

Effective quality assurance and improvement programs share the following three overarching themes:

1. They have a dedicated staff who are passionate about quality assurance and improvement. This person or group of individuals is responsible for performing the internal self-assessment, gathering all information in preparation for the external QA, and performing ongoing monitoring of the internal audit activity.

2. They leverage the use of technology and invest in the right technology tools based on the internal audit activity’s quality assurance and improvement needs. Tools are used to document all internal audit work papers as well as secure information in a central location.

3. They have the support of senior management and the audit committee. Getting the support of these two entities is especially important when performing an external QA and in ensuring internal auditors are onboard with quality assurance activities.

11 Leading practices were collected from existing IIA Flash survey results, data from the GAIN Annual Benchmarking Study, interviews with three CAEs with quality assurance and improvement programs that are in compliance with The IIA Standards, and 10 external QAs performed by The IIA of organizations that not only conform to the Standards and Code of Ethics, but have gone above and beyond in their quality assurance efforts.
members of the organization’s internal audit activity. This group is responsible for ensuring that the internal audit activity is in compliance with the quality assurance and improvement program.

However, not all internal audit activities have a dedicated staff for quality assurance and improvement. An October 2008 Flash survey\(^{12}\) found that of the 257 CAEs, internal audit directors, and other audit managers who responded to the survey,\(^{13}\) only 14 percent had a dedicated quality assurance function. These respondents stated that the number one method for ensuring quality within their internal audit activity was the use of manager/supervisor reviews (92 percent) followed by periodic external QAs (54 percent), and peer reviews (32 percent). However, of those internal audit activities with a dedicated quality assurance function, the main responsibilities of the function are to:

- Conduct periodic quality assurance review activities on a rotational basis (82 percent).
- Ensure standards are appropriately updated to align with the Standards (79 percent).
- Report internal and external development to internal auditing (e.g., metrics/balanced scorecard) for management (58 percent).
- Train internal audit staff (53 percent).

To these respondents, an internal audit activity of 30 or more staff members was the threshold at which CAEs should consider establishing a dedicated quality assurance function. What’s more, 51 percent rated the criticality of a dedicated quality assurance function to the success of their internal audit activity as low (34 percent) or low to medium (17 percent).

### 2. They leverage the use of technology.

CAEs also need to invest in the right tools to ensure the proper documentation of workpapers and reports. “We use an electronic work management system to document everything,” says Scott-Kakures. “This system was created internally in collaboration with our IT department and has enabled us to have complete oversight of our work by documenting everything we do and monitoring our work closely.”

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12 “Ensuring Quality Assurance Within the Internal Audit Activity” (October 2008), [www.theiia.org/download.cfm?file=12443](http://www.theiia.org/download.cfm?file=12443)

13 A total of 1,500 invitations were sent of which 257 internal auditors, mostly at the management or above level, participated in the survey.
Once the proper tool is selected and implemented, CAEs need to keep all documentation in a central repository. “Besides giving us easy access to the information we need, keeping all documentation in one location greatly expedites the review process,” adds Scott-Kakures.

3. They have the support of senior management and the audit committee. The success of any internal audit program or initiative depends greatly on the level of support provided by senior management and the audit committee. According to Sorensen, garnering the support of these two entities is critical. “Our prior CAE and senior audit management were heavily involved in designing and implementing our QAIP in 2003. Their commitment to the program was the key to its success,” Sorensen explains. “The CAE also involved senior business unit management in designing and approving our audit protocols.”

Denny Beran also advises getting the full support of the audit committee, especially as it pertains to the external QA. “CAEs who wish to perform an external QA for the first time need to get the full support of their direct reporting line by explaining the benefit of having an external review,” he says. As he explains, an external QA not only enables CAEs to attest that their internal audit activity is in compliance with the Standards, but also offers suggestions that strengthen audit operations, making them more effective.

15 Attributes of High-performing QAIPs

Besides the three overarching themes, IIA intelligence from external QAs has unveiled a list of 15 attributes found in high-performing quality assurance and improvement programs from internal audit activities that conform to the Standards. Similarly, these external QAs have also uncovered growth areas from quality assurance and improvement programs that do not conform to the Standards. These growth areas are described as a series of recommendations for improvement CAEs can implement to enhance their quality assurance and improvement programs. Table 3 starting on page 16 depicts the 15 attributes and their corresponding growth areas.
Table 3. Moving From Good to Great: Recommendations for QAIP Improvement and Leading Practices

<table>
<thead>
<tr>
<th>Leading QAIP Practice</th>
<th>Recommendations for QAIP Improvement</th>
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</table>
| 1. The CAE is actively involved in the organization, including involvement in initiatives intended to strengthen the organization’s governance, risk management, and internal control processes. Similarly, the internal audit activity works closely with other governance and monitoring functions, including the organization’s risk management unit or personnel. | Improve the partnership between management and the internal audit activity. This requires the following:  
   Acquire executive- and management-level support for the internal audit activity.  
   Take a more consultative and partner-oriented approach to internal audit work.  
   Share information with other business functions to increase transparency.  
   Consider client concerns pertaining to risks.  
   Provide more emphasis on process issues. |
| 2. The internal audit activity has an annual risk assessment process that is linked to the organization’s risk management program or process. In addition, the internal audit activity continuously monitors its audit universe and risk assessment framework, resulting in more focused, long-term audit planning and efficient audit schedules. | Implement a formal risk management process to ensure that all key risks are identified and managed and the internal audit activity focuses its audit program on these key risks. In addition, enhance the current risk assessment system by implementing the following recommendations:  
   Link the risk universe listed in the enterprise risk management system to the audit risk assessment process.  
   Expand the current audit universe by adding appropriate IT and financial risk areas.  
   Link the results of the current risk assessment to the annual audit plan.  
   Expand the annual audit planning process to develop a comprehensive audit risk universe that encompasses all auditable segments:  
     Document the audit universe and break it down into auditable entities to ensure completeness and facilitate coverage.  
     At the universe level, the planning process should encompass key control areas, strategic objectives, governance, and IT activities.  
     Perform a systematic, annual risk assessment at the auditable entity level to determine that the audit priorities are consistent with the organization’s goals.  
     Consider input from senior management and the risk appetite and tolerance levels set by management for the different activities and parts of the organization.  
     Put together a more elaborate internal audit plan that contains sufficient information for senior management and the audit committee to ascertain whether the projected audit activities meet expectations and support the organization’s annual objectives and strategies.  
     Facilitate better understanding of the scope of the projected audit work, the adequacy of the existing audit resources, and the manner in which they will be deployed. |
3. The internal audit activity uses technology-based audit tools to enhance its productivity and effectiveness.

4. The CAE has made a commitment to the continuing education and training of internal audit staff and encourages internal auditors to acquire professional certifications. In addition, the CAE encourages internal auditors to be actively involved in the profession (e.g., holding leadership positions in The IIA and participating as volunteers for external QAs.)

- Develop a perpetual interactive monitoring system for tracking actions taken by management in response to internal audit issues. This increases the effectiveness of the audit function.

- Expand the continuing professional development of internal auditors to maintain high-quality, knowledgeable, and professional staff by developing comprehensive, internal audit training programs that:
  - Define and document a training policy to enhance staff knowledge, skills, and competencies through continuing professional education to reflect the commitment of audit management in this area.
  - Develop formal audit training on audit policies, practices, and procedures for new auditors. This should be completed before auditors are assigned to audit teams.
  - Provide specific training to all auditors in the areas to be reviewed to enhance auditor knowledge and effectiveness in fieldwork.
  - Consider increasing the annual budget to fund a sufficient training program. Any limitations on the internal audit activity’s training resources should be communicated to the board of directors or audit committee and senior management for resolution.
  - Develop training programs that focus on IT auditing, general audit skills, and fraud knowledge and awareness.
  - Augment communications and interpersonal skills training for auditors to enhance audit deliverables and relations with clients and management.
  - Rotate various auditors to business and operation units temporarily to learn the functions of each business unit, leverage and enhance the image of the internal audit activity, and enrich the experience of line managers and audit candidates with recognized potential for career advancement.
  - Rotate experienced staff from other business units into the internal audit activity for a period of time to assist other internal auditors with their operational expertise and, in turn, learn about internal control and opportunities in internal auditing.
  - Encourage pursuit of professional certification and continuous professional development to help internal audit staff remain proficient.
5. The internal audit activity demonstrates a continued commitment to quality in the services it provides.

- Include efficiency in internal audit objectives where appropriate by doing the following:
  - Consider an evaluation of effectiveness and efficiency in processes during the audit.
  - Develop and use key audit metrics to drive productivity and track value added to the business.
  - Consider the creation of a full-time position for manager of professional practices and providing appropriate staff support to address all internal audit activity needs. This position should report to head of internal auditing.
  - Create an internal QAIP function. Responsibility for managing the QAIP function should be assigned to a professional practices manager.

6. The internal audit activity has a high level of credibility and excellent reputation with clients and organization stakeholders.

- Improve the practice and perception of objectivity by ensuring the following:
  - Each auditor’s approach is in line with the internal audit activity’s goal of helping the organization achieve its objectives and regularly soliciting management’s evaluation of the accomplishment of that goal.
  - Not assigning auditors to areas of recent responsibility in the last year, except for nonaudit-related consulting work as may be appropriate. Instead, assign an independent auditor to review this specific area.
  - Strengthen the independence of the internal audit activity by establishing and formalizing an independent reporting path for the CAE that is independent of the organization’s management (i.e., revisit the CAE’s administrative/functional reporting line and revise the current internal audit structure and location of resources to concentrate them in fewer locations).

7. The internal audit activity has a comprehensive charter that clearly identifies the roles and responsibilities of all internal audit staff.

- Introduce The IIA’s Code of Ethics to address the four principles (i.e., integrity, objectivity, confidentiality, and competency) relevant to the profession and practices of internal auditing and describes the rules of conduct that represent behavior norms expected of internal auditors.
- Streamline the contents of the internal audit charter so that it becomes a high-level document that:
  - Defines the auditor’s mission, role and activities.
  - Describes the extent of consulting/advisory services to be provided.
  - Recognizes the mandatory nature of the Definition of Internal Auditing, The IIA Code of Ethics, and the Standards.
<table>
<thead>
<tr>
<th>8.</th>
<th>The internal audit activity coordinates optimally with the external auditor.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Increase the level of coordination between the internal audit activity and external auditor by the following:</td>
</tr>
<tr>
<td></td>
<td>▪ Share audit plans in advance to avoid duplication.</td>
</tr>
<tr>
<td></td>
<td>▪ Rely on each other's work by reviewing completed audits.</td>
</tr>
<tr>
<td></td>
<td>▪ Perform joint audits when appropriate, especially in high-risk areas.</td>
</tr>
<tr>
<td></td>
<td>▪ Participate in joint training and joint staff meetings as appropriate.</td>
</tr>
<tr>
<td>9.</td>
<td>The internal audit activity provides concise audit reports that focus on risk and appropriate follow-up of management action plans.</td>
</tr>
<tr>
<td></td>
<td>• Establish a standard audit report format to ensure consistent report quality by doing the following:</td>
</tr>
<tr>
<td></td>
<td>▪ Include a sample report in the policy and procedures manual and establishing a quality review process.</td>
</tr>
<tr>
<td></td>
<td>▪ Develop a uniform procedure for monitoring the disposition of audit results and include it in the internal audit manual. This procedure should define the steps the auditors should follow to evaluate the adequacy, effectiveness, and timeliness of management actions.</td>
</tr>
<tr>
<td></td>
<td>▪ Revise and enforce new guidelines for audit reports to ensure that communications are accurate, objective, clear, concise, constructive, complete, and timely.</td>
</tr>
<tr>
<td></td>
<td>▪ Enforce stricter discipline in working papers to ensure consistency and completeness. Consistent and complete work papers facilitate third-party reviews, provide the principal support for engagement results, reflect the accuracy and completeness of the work performed, and are one of the components for evaluating the internal audit activity's quality program.</td>
</tr>
<tr>
<td></td>
<td>• Develop an effective work paper presentation process involving the following recommendations:</td>
</tr>
<tr>
<td></td>
<td>▪ Clarify and standardize the audit work paper process.</td>
</tr>
<tr>
<td></td>
<td>▪ Set up templates for work paper standardization and recording.</td>
</tr>
<tr>
<td></td>
<td>▪ Develop a standardized flow-charting and cross-referencing system.</td>
</tr>
<tr>
<td></td>
<td>▪ Maximize the use of IT in audit activities, particularly work paper preparation and maintenance.</td>
</tr>
</tbody>
</table>
10. The internal audit plan outlines specific performance milestones to increase efficiencies within the department leading to a more productive staff.

 Expand metrics to improve resource management to ensure resource constraints are better considered, measured, and evaluated. This will assist in ensuring resources are used more efficiently and resource needs are better evaluated.

 Improve or enhance root-cause analysis of internal audit observations to ensure the causes of the problems are addressed whenever possible. In addition, ensure, in all cases, that work papers and reports address all essential elements of observations, including criteria, conditions, cause, impact, and recommendations.

11. The CAE holds open discussions with staff for the continuous improvement of the internal audit activity. Topics discussed include future work plans, controls testing, and internal audit techniques.

 Expand and consolidate current instructions into a comprehensive internal audit manual that describes the audit methodology and process flow chosen for the execution of the internal audit plan. The manual should be shared with all audit staff and be written in enough detail to:

 - Ensure consistency.
 - Help auditors understand the overall scope of activities and processes.
 - Create efficiency.
 - Disseminate uniform procedures and successful practices.
 - Train entry-level staff.

12. There is excellent alignment among the internal audit activity, audit committee, and senior management team. In addition, the CAE and internal audit activity conduct periodic training for the audit committee.

 Enhance audit reports provided to management and the value they add by doing the following:

 - Document, in audit reports, the impact of audit observations on the activities reviewed and the causes of the findings to help management understand the significance.
 - Add management’s response in the final audit report so that management can be kept informed of the status of corrective action to be taken in response to audit recommendations.
 - Include management responses, such as management’s acceptance or rejection of the recommendations, the proposed action plans or reasons for rejection, and the timeline for completion of any proposed action plans.

13. The organization has a high level of confidence in the internal audit activity.

 Develop an effective follow-up procedure to monitor management progress in corrective actions regarding audit observations by doing the following:

 - Establish a system that is either built in-house or purchased to track the status of management action plans (e.g., using a spreadsheet or database).
 - Include a report on the status of action plans at monthly management meetings, as appropriate, and including the information as part of the quarterly activity report to the board or audit committee.
14. The internal audit activity has a high level of support from the organization’s senior management team, audit committee and/or board, and other stakeholders.

15. The internal audit activity includes one or several staff members with experience in IT, data analytics, or IT auditing.

- Develop and implement an education and marketing plan for internal audit activity stakeholders including senior management, the audit committee, board members, and other employees.
- Enhance coverage of IT by increasing IT skills, providing more monitoring of outsourced audits, and expanding the IT audit universe.
- Develop an IT audit capability model involving the following recommendations:
  - Reevaluate the audit universe and risk factors, specifically in IT areas.
  - Adopt an IT audit framework.
  - Recruit an IT audit manager and one or two IT auditors to begin developing an IT audit capability in the IA activity.
  - Coordinate with IT vendors to assure that adequate control is built into systems before implementation and that adequate, ongoing systems maintenance is available after implementation.
Resources

- IIA Seminars and Webinars, www.theiia.org/training/index.cfm?act=seminar.find&topic=7:
  - Seminar: Internal Audit Quality Assessment: Establishing Your QA and Improvement Program.
  - Seminar: Internal Audit Quality Assessment: Performing an Internal or External Review.
  - On-site Seminar: Internal Audit Quality Assessment: Performing an Internal or External Review.
  - Webinar: On-Demand - October 22, 2009 - The Board, the Organization, the Internal Audit department and the Quality Improvement and Assurance Program.
- Sample QAIPs and Plans:
  - Virginia State University’s QAIP Plan: www.vsu.edu/pages/3791.asp.
- The IIA’s Flash Surveys:
- The IIA Research Foundation’s Online Bookstore section on Quality Assessment: www.theiia.org/bookstore/department/quality-assessment-10032.cfm?.
Appendix A: Overview of Quality Assurance and Improvement Programs

Program 1: JCPenney Co.

Denny K. Beran, CIA, CCSA
Title: Senior Vice President of Internal Audit
Industry: Retail
Staff size: 50 internal auditors
External QA cycle: Every five years

1. Who runs the quality assurance and improvement program (QAIP)?
   A senior management team of five senior managers who are members of the organization’s internal audit activity. This group is responsible for ensuring that the internal audit activity is in compliance with the QAIP. “The person in charge of running our QAIP is a senior manager who holds a quality assurance review certification and, in the past, performed several QA reviews for other organizations. Other members of the QAIP team are experienced internal auditors who hold the CIA designation.”

2. Are QAIP policies documented?
   Yes; QAIP policies outline the senior management team’s responsibilities in terms of the internal QA, which is performed every year and a half to make sure the internal audit activity is in compliance with the Standards. Results of the internal QA are reported to the audit committee. The company recently acquired TeamMate to strengthen its work paper and documentation process.

3. What are some of your quality assurance controls?
   “We turn to the IPPF as the source that provides a roadmap for our internal audit activity by emphasizing our compliance with the Standards and Code of Ethics.”

   In addition, Beran’s group tracks every audit in TeamMate and all audit completion times and professional certifications by staff in Excel. “We then calculate a percent completion for each audit and certification.”

4. What performance metrics do you use as part of the QAIP? Beran uses several performance metrics:
   - **Percent of internal audit plan completed.** Beran’s group performs 140 to 170 regular audits per year, which take anywhere from 200 to 250 hours to complete, and 50 to 60 department priority audits per year, which take anywhere from 400 to 700 hours to complete.
   - **Cost-exceptions.** “We challenge ourselves to identify cost exceptions,” Beran says. “This way we can demonstrate how our work helps to cover our budget.”
   - **Audit cycle time devoted to each audit.** Beran’s group keeps track of how much time is devoted to each audit from the start of the audit to the issuance of the report. Metrics used to track time are different depending on the type of audit (e.g., department priority audits, regular audits, special investigations, and management requests).
   - **Training hours.** Internal auditors are required to complete a minimum of 40 hours of training per year. Training is provided internally and externally, but the majority is performed externally. For example, new internal auditors attend The IIA’s Tools and Techniques seminar as well as a project management course and soft skills training, including how to improve communications and how to enhance written reports.
- **Promote and track professional certifications.** According to Beran, 80 percent of his entire staff is certified. However, excluding new internal auditors and IT auditors, who are mostly programmers, 100 percent of staff is certified with at least one certification. Many have two, three, or four certifications each.

- **Data from client surveys on key department priority audits** to determine whether internal auditors are responding to client needs, looking at the bigger issues, and performing their work in a satisfactory manner. Surveys are completed on paper or via e-mail.

5. Do you have a quality assurance section in place as part of the organization's policies and procedures manual?
   Yes; this section also is included in the audit committee charter as well.

6. Does your organization see the value of having a QAIP? If so, what is the perceived value add?
   “Yes, senior management and the audit committee see the value in our QAIP mostly for the compliance aspect of adhering to the *Standards*. Both groups do see great value in the external QA due to the value it adds to our work, and were 100 percent on board with us performing our last external QA. Our last external QA was performed in 2006, and we do them every five years.”
   
   “Internally, our internal auditors also see the value in having a QAIP. As professionals, internal auditors have an obligation to adhere to the *Standards* and Code of Ethics, which are the cornerstones of our professional foundation. Having a QAIP ensures our work adheres to the guidelines set forth by our profession and enables us to obtain best practice information on what we need to do to improve our work and add value.”

7. How are QAIP results reported?
   “We provide all quality assurance reports to the audit committee. I present them during face-to-face meetings, as well as send them a report beforehand.”

8. Have layoffs impacted your QAIP?
   “Not at all. Whether you have a staff of five or 50 internal auditors, you must adhere to the *Standards* and perform an ongoing assessment of your function to determine whether you and your staff are performing accordingly.”
Program 2: SRP

Rick Wardrip
Title: Corporate Auditor
Industry: Utilities
Staff size: 15 internal auditors and two audit contractors
External QA cycle: Every three years

1. Who runs the QAIP?
“We have an audit consultant and three audit managers who are in charge of the internal audit activity’s QAIP. The audit consultant, three audit managers, and myself perform the work pertaining to the quality aspect of the internal audit activity, including following up on recommendations, collecting client survey feedback, and figuring out the department’s level of productivity and dollar savings from each audit.”

The managers have to be able to correct the problems and deficiencies identified by the audit consultant. In addition, the three managers and Wardrip present information once a year to the entire internal audit department on what’s working or not and what should be changed, as well as feedback from clients.

2. Are QAIP policies documented?
“Yes, we have an internal QAIP policy that is documented. We also use TeamMate to document our work papers.”

3. What are some of your quality assurance controls?
“We use the checklist outlined in The IIA’s QAR manual to rate the adequacy of our work papers. In addition, we perform the external review every three years as I believe that the sooner you detect any inefficiencies in your processes, the sooner you can correct them. In addition, performing the external QA every three years gives you a more accurate barometer of how your internal audit activity is performing. Finally, we make sure our documents are stored and protected properly to ensure their security.”

4. What performance metrics do you use as part of the QAIP? Wardrip uses:
   - **Client surveys**, which are performed at the end of the audit.
   - **Quarterly reports of staff productivity hours**. This information has been compiled during the past five years for trending purposes.
   - **Audit report completion time starting** from the end of field work to issuance of reports. “We don’t set a benchmark in terms of when a report must be completed by since we don’t perform cookie-cutter audits. Each audit is dynamic and different given the nature of our work.”
   - **Percent of audits completed versus audits not completed**.
   - **Internal risk ranking of each audit using a high, medium, or low scale**. “We don’t share risk rankings with clients because a lot of times clients focus on the ranking rather than the issues identified. Only the audit committee chair and CEO see the ranking to prevent holdup of reports, and at the end of the year, we report a risk ranking of all audits to the audit committee.”
   - **Evaluations of each internal auditor after every audit**. Performance evaluations are performed by the auditor’s manager.”
Auditor compliance with the 24-hour rule. “When a client contacts the department, I expect the client to have received a response within 24 hours. In addition, during the course of the audit we provide updates to the client to make them aware of what's going on, especially if the auditor has to leave town or is working on another project.

Quarterly presentations to the internal audit group on the audits they have completed. Although this is not a performance metric, this activity enables internal auditors to understand the ramifications and issues of other audits completed, which, in turn, helps to enhance audit performance.

5. Are QAIP policies documented?
Wardrip's internal audit activity has a QAIP policy. In terms of the internal QA, he uses different performance metrics to obtain quality assurance and improvement information and follows the recommendations outlined in The IIA’s QAR Manual.

6. Does your organization see the value of having a QAIP? If so, what is the perceived value add?
“Yes, our senior managers and audit committee members see the value of having a QAIP, especially when it comes to the state of our compliance with the Standards and our relationships with executive management.”

7. How do you report QAIP results?
Wardrip reports QAIP results to the audit committee chairman and chairman of the board every quarter. In addition to the audit committee, external QA results are reported to the board of directors.

8. Have layoffs impacted your QAIP?
“Yes; we are a utility company, and due to the economic recession workforce reductions have occurred companywide.”
Program 3: Edison International, Southern California Edison Co.,
and Edison Mission Group

Megan Scott-Kakures
Title: Vice president and general auditor

Bryan Sorensen
Title: Manager
Industry: Utilities
Staff size: 80 internal auditors, including rotational positions
External QA cycle: Every three years

1. Who runs the QAIP?
Bryan Sorensen runs the program and devotes approximately 50 percent of his time to the QAIP. Sorensen also creates packages for board meetings, directs the annual risk assessment and audit planning process, and coordinates training. Department work teams review work papers, develop work paper and audit report formats, and set standard work practices. Scott-Kakures’ internal audit activity performs approximately 200 projects per year, each taking an average of 60 business days to complete.

2. Are QAIP policies documented?
Yes, the internal audit activity has a standardized work practices manual.

3. What are some of your quality assurance controls?
Scott-Kakures: “Our practices are standardized thoroughly. We have standardized work practices as well as standardized work papers and report formats to provide a common look and feel to all of our audit projects and ensure our clients get a consistent format from our department in our reports.

“We also have an internal audit work management system our auditors use to enter all of their information. This information is then routed to the engagement manager for review and approval. The engagement manager also approves all work papers. A final review of all information and work papers is performed by all audit directors and I review all audit reports.

“We have an external review every three years and an internal assessment every year and a half as stated in the internal audit charter. The internal assessment uses the same process outlined in The IIA Quality Review Manual. We believe that performing the external review every three years enables us to become a top-notch internal audit function. In addition, the external review provides us with really valuable information and benchmarks we can use to improve our work.”

Sorensen: “We independently review workpapers to make sure they are in compliance with the Standards and our internal work practices. We issue a report that flags any noncompliance items. Our key performance indicators (KPIs) state that our compliance level must be at a minimum of 95 percent. Any flags identified are then communicated back to staff so that auditors can correct what was wrong. Employees are held accountable for meeting department KPIs on their performance appraisals.

“Finally, we have a team of staff auditors who perform an in-depth review of 10 percent of our work papers each quarter. Results of the review are circulated to the entire department highlighting all of our lessons learned.”
4. Is there a quality assurance section in place as part of the organization’s policies and procedures manual?
Scott-Kakures: “Yes, we have standardized work practices.”

5. How do you report QAIP results?
Scott-Kakures: “We report results of all quality assurance reviews during our meetings with the audit committee and provide committee members all materials in advance. We also report results of all external and internal self-assessments to senior management.”

6. What performance metrics do you use as part of the QAIP?
Scott-Kakures uses a balanced scorecard that is based on the recommendations from an external quality assurance review.

7. Does your organization see the value of having a QAIP? If so, what is the perceived value add?
Scott-Kakures: “Our internal audit activity sees the value in having a QAIP. In terms of senior management and the audit committee, both are happy with the processes in place to improve quality and are receptive to process changes made throughout the year.

Sorensen: “There was some initial resistance to quality assurance reviews and standardized practices. But the results of our last two external QA reviews were very positive and I think that has demonstrated to the staff the value of having a QAIP in place.”

8. Have layoffs impacted your QAIP?
Scott-Kakures: “We’ve had no layoffs. However, our QAIP efforts might be adjusted if layoffs were to occur based on our current level of resources.”
Appendix B: Practice Advisory 1300-1: Quality Assurance and Improvement Program

Primary Related Standard
1300 – Quality Assurance and Improvement Program
The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Interpretation:
A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

1. The chief audit executive (CAE) is responsible for establishing an internal audit activity whose scope of work includes the activities in the Standards and in the Definition of Internal Auditing. To ensure that this occurs, Standard 1300 requires that the CAE develop and maintain a quality assurance and improvement program (QAIP).

2. The CAE is accountable for implementing processes designed to provide reasonable assurance to the various stakeholders that the internal audit activity:
   - Performs in accordance with the internal audit charter, which is consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.
   - Operates in an effective and efficient manner.
   - Is perceived by those stakeholders as adding value and improving the organization’s operations.

   These processes include appropriate supervision, periodic internal assessments and ongoing monitoring of quality assurance, and periodic external assessments.

3. The QAIP needs to be sufficiently comprehensive to encompass all aspects of operation and management of an internal audit activity, as found in the Definition of Internal Auditing, the Code of Ethics, the Standards, and best practices of the profession. The QAIP process is performed by or under direct supervision of the CAE. Except in small internal audit activities, the CAE would usually delegate most QAIP responsibilities to subordinates. In large or complex environments (e.g., numerous business units and/or locations), the CAE establishes a formal QAIP function — headed by an internal audit executive — independent of the audit and consulting segments of the internal audit activity. This executive (and limited staff) administers and monitors the activities needed for a successful QAIP.
Appendix C: Sample Audit Committee Internal QA Summary

2009 Quality Assessment (QA)

During the fourth quarter of 2009, the internal audit activity conducted an internal self-assessment of the quality programs in place to monitor the overall department’s conformance to the Definition of Internal Auditing, the Code of Ethics, and the Standards as required by the International Standards for the Professional Practice of Internal Auditing.

The Standards require that every internal audit activity conducts ongoing reviews of the performance of its internal audit activity, periodic self-assessments, and an external QAR every five years. As you know, we had an external quality assessment completed in June 2006 by The IIA Quality Group. Overall, they found that the internal audit activity “Generally Conforms” with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

The scope of this self-assessment review included completing steps from The IIA Quality Assessment Manual as follows:

- Conducted an internal audit staff survey to identify where the department can improve our current performance and increase our value to the company.
- Interviewed the chief audit executive (CAE) to note any issues impacting our performance and steps we can take to improve it.
- Reviewed the effectiveness of the current CAE reporting lines and quality assurance and improvement program responsibility.
- Determined the adequacy of our risk assessment and audit planning processes.
- Evaluated internal audit staff professional proficiency to ensure we have the tools, training, and right professional development to perform quality reviews.
- Evaluated IT audit activities to determine IT audit risk identification, coverage, staff expertise, and resources were appropriate.
- Assessed our current key metrics used to monitor individual and department quality performance and value we provide to our customer.
- Evaluated the adequacy of planning and conducting the engagement, workpaper documentation and review, audit reports, and monitoring process to ensure timely audits and corrective action.

The internal self-assessment was led by one of our senior audit managers with more than 30 years of audit experience who has completed The IIA’s QA training and is a certified IIA QA volunteer. In addition, he has participated on two external QAs for The IIA. The team also included an additional senior audit manager and audit manager.

Overall, the internal QA team found that our activity conforms to the Definition of Internal Auditing, the Code of Ethics, and the Standards. The one opportunity identified was in workpaper documentation. The activity purchased a new automated work paper package (TeamMate) in late 2007. We found that additional TeamMate training is needed to ensure all auditors are using the package’s features to improve audit productivity, staff are consistent in documenting work, and the report summary capabilities are used. Corrective action will be completed during the first half of 2010.
Appendix D: Sample QAIP Policy

Quality Assurance and Improvement Program Policy

The chief audit executive establishes and maintains a quality assurance and improvement program to evaluate the operations of the internal audit activity. The major components of this program include the following:

- Ongoing supervision of internal audit performance provides the primary method of quality control over internal audit work.

- Periodic reviews of the internal audit activity are performed by internal audit management to provide an objective analysis of the execution and documentation of the audit work performed and assurance that:
  - Audit planning and supervision is effective.
  - Documentation of work performed is sufficient.
  - Development, documentation, and reporting of detected deficiencies are appropriate.
  - Ensure conformance to the Definition of Internal Auditing, the Code of Ethics, and the Standards.

- An external quality assessment is conducted at least once every five years by a qualified, independent reviewer or review team from outside the Organization. The results of this review are reported to the audit committee of the board of directors.

- Third-party reviews of internal auditing are performed periodically as requested by senior management and/or the audit committee of the board of directors.
# Appendix E: Sample Balanced Scorecard

**Balanced Scorecard**

as of [INSERT DATE HERE]

<table>
<thead>
<tr>
<th>Metric</th>
<th>Definition</th>
<th>Actual Value</th>
<th>Target</th>
<th>Notes</th>
<th>Financial Audit</th>
<th>Operational Audit</th>
<th>IT Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>People</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staffing Level Adequacy</td>
<td>Staff as % of Budgeted Staff</td>
<td>92%</td>
<td>90%</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff Movement to BU</td>
<td>% Staff hired by BU's - YTD</td>
<td>6%</td>
<td>6% +</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff Training</td>
<td>% Staff Completing 40 Hours or more of Training - YTD</td>
<td>74%</td>
<td>100%</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional Certification</td>
<td>% Staff with at least 1 Professional Certification</td>
<td>74%</td>
<td>70% +</td>
<td>2</td>
<td>75%</td>
<td>63%</td>
<td>86%</td>
</tr>
<tr>
<td>Education</td>
<td>% Staff with College Degree</td>
<td>100%</td>
<td>97%</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Experience</td>
<td>Avg. Years Audit Experience per Staff Member</td>
<td>12</td>
<td>6 +</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tenure</td>
<td>Avg. Years in ASD per Staff Member</td>
<td>8</td>
<td>4 +</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Turnover</td>
<td>% Staff Leaving Company - YTD</td>
<td>3%</td>
<td>7% -</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance Management</td>
<td>Completion of PDPP requirements - YTD</td>
<td>100%</td>
<td>100%</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Audit Planning</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Assessment Interviews</td>
<td>Number of Risk Interviews Conducted</td>
<td>85</td>
<td>75+</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Client Communications</td>
<td>Number of Mgrs Met with in Audit Plan</td>
<td>38</td>
<td>40 +</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Universe Coverage</td>
<td>% Moderate/High Risk Processes Audited in Last 3 Plan Years</td>
<td>97%</td>
<td>90% +</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Coverage</td>
<td>% of Audit Plan Hours in High Risk Areas</td>
<td>89%</td>
<td>80% +</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Audit Process</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Audit Plan Completion</td>
<td>% Current Year Audit Plan Completed - YTD</td>
<td>23%</td>
<td>95% +</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Plan Completion</td>
<td>% Last Year’s Audit Plan Completed</td>
<td>96%</td>
<td>95% +</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Report Turnaround Time</td>
<td>% Final Reports Issued within 30 days of Draft</td>
<td>98%</td>
<td>80% +</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engagement Duration</td>
<td>Total Cycle Time (Business Days) - 6 month moving average</td>
<td>58</td>
<td>70 -</td>
<td>11</td>
<td>53</td>
<td>57</td>
<td>72</td>
</tr>
<tr>
<td>Client Feedback</td>
<td>Avg. Engagement Score - YTD</td>
<td>88%</td>
<td>80% +</td>
<td></td>
<td>87%</td>
<td>89%</td>
<td>92%</td>
</tr>
<tr>
<td>Budget</td>
<td>Actual Expenditures vs. Budget - YTD</td>
<td>88%</td>
<td>100% -</td>
<td></td>
<td>97%</td>
<td>90%</td>
<td>98%</td>
</tr>
<tr>
<td>SOX Testing Hours</td>
<td>% Audit Plan Hours on SOX Testing</td>
<td>34%</td>
<td>40% -</td>
<td>12</td>
<td>85%</td>
<td>96%</td>
<td>100%</td>
</tr>
<tr>
<td>Audit Work Practices</td>
<td>% Compliance with Standard Work Practices - YTD</td>
<td>92%</td>
<td>95% +</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Productive Time</td>
<td>% Time Charged to Audit Projects - Last 12 months</td>
<td>76%</td>
<td>75% +</td>
<td>13</td>
<td>79%</td>
<td>68%</td>
<td>78%</td>
</tr>
</tbody>
</table>

**Audit Resolution**

Overdue Observations % Open Observations 90+ days past due | 2% | 5% | 14

Notes:
(1) Excludes rotational leadership program, admins, part time, interns, and staff not here entire year.
(2) Excludes rotational leadership program, part-time, interns, and admin staff.
(3) As % of budgeted positions. Excludes part-time, interns, retirees, rotational leadership program.
(4) % of employees receiving required performance appraisal YTD.
(5) Last completed risk assessment cycle. Includes ERM BU and BU Leader meetings with internal audit participation.
(6) In current calendar year.
(7) % of auditable units in Universe scored "red" or "yellow" with audits planned or completed in last 3 plan years.
(8) Planned hours in current audit plan year. Excludes SOX and EHS. High-risk process = risk score of 3.0 or higher.
(9) % of Projects showing status of "completed."
(10) % of Projects showing status of "completed." Adjusted for projects cancelled due to changing risk profile of company.
(11) Elapsed time in business days from actual start date to final report issue date shown in the work management system.
(12) Last completed audit plan.
(13) Excludes admins, senior managers, employees out on leave, and rotational leadership program.
(14) Observations sent to the tracking database.