

Factsheet: External Assessment Options

What is an External Assessment?

Internal auditors are governed by the 'International Professional Practices Framework' (IPPF) issued by the Institute of Internal Auditors (IIA). The IPPF contains four mandatory requirements for internal auditors including the 'International Standards for the Professional Practice of Internal Auditing'.

Internal Audit Standard 1300 'Quality Assurance and Improvement Program' requires:

"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 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.*
- › *The chief audit executive should encourage board (audit committee) oversight in the quality assurance and improvement program."*

An external assessment forms part of an internal audit function's quality assurance and improvement program required by Internal Audit Standard 1300.

An external assessment is described in the IPPF as:

"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 (audit committee):

- › *The form and frequency of external assessment.*
- › *The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.*

Interpretation –

- › *External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation.*

- › *The external assessor must conclude as to conformance with the Code of Ethics and the Standards - the external assessment may also include operational or strategic comments.*
- › *A qualified assessor or assessment team demonstrates competence in two areas - the professional practice of internal auditing and the external assessment process.*
- › *Competence can be demonstrated through a mixture of experience and theoretical learning.*
- › *Experience gained in organisations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience.*
- › *In the case of an assessment team, not all members of the team need to have all the competencies - it is the team as a whole that is qualified.*
- › *The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.*
- › *An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.*
- › *The chief audit executive should encourage board (audit committee) oversight in the external assessment to reduce perceived or potential conflicts of interest."*

What are primary Quality Assurance and Improvement Program Components?

A quality assurance and improvement program contains three primary components:

- › Ongoing internal assessments performed throughout the year.
- › Periodic internal assessments usually performed annually.
- › External assessments performed at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

For specific details on what comprises 'ongoing internal assessments' and 'periodic internal assessments', refer IIA-Australia Factsheet 'Quality Assurance and Improvement Program'.

What are Typical External Assessment Objectives?

An external assessment will generally examine:

1. Conformance of Internal Audit with mandatory requirements of the 'International Professional Practices Framework' (IPPF) issued by the Institute of Internal Auditors (IIA) including the 'International Standards for the Professional Practice of Internal Auditing'.
2. Expectations of internal audit expressed by the audit committee, chief executive officer and senior management, and whether these are being met.
3. Effectiveness of internal audit as a 3rd line assurance activity integrated into the strategic management and governance framework.

4. Whether internal audit operations represent contemporary good practice.
5. Internal audit skills, knowledge and experience capability.
6. Whether internal audit adds value and contributes to improving business operations.

Where internal audit is mandated in a jurisdiction or industry sector, conformance to the mandatory requirements should also be included as an objective.

What are External Assessment Benefits?

An external assessment:

Answers Questions	Provides Opportunities
<ul style="list-style-type: none"> › 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? 	<ul style="list-style-type: none"> › 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 IPPF and Internal Audit Standards. › Identify opportunities for improvement within internal audit. › Prove internal audit's worth to its clients.

What are External Assessment Options?

Methods used to perform an external assessment are:

Full Scope External Assessment

- › The organisation engages an assessor or assessment team to conduct an independent external assessment of the internal audit function.
- › The assessor needs to be independent of the organisation.

Peer Reviews

- › Must be three 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.

Self-Assessment followed by an Independent Validation (SAIV)

- › The internal audit function conducts its own self-assessment and determines its conformance with the IPPF and Internal Audit Standards.
- › An independent validator is selected who reviews documentation, conducts a small number of confirmatory interviews and performs limited testing.

- › The independent validator agrees, partially agrees or disagrees with the self-assessment.
- › A single report is issued.
- › The independent validator needs to be independent of the organisation.

Preliminary Review followed by Full Scope External Assessment

- › The organisation engages an assessor or assessment team to conduct an independent external assessment of the internal audit function.
- › The assessor needs to be independent of the organisation.
- › Time gap between preliminary review and full scope external assessment can be used to implement improvements.

In some industry sectors such as the University, Local Government and Health sectors, peer review and SAIV have been combined:

- › Need to have critical mass of organisations in same industry sector willing to participate.
- › Common methodology agreed.
- › Training conducted so everyone is 'on the same page'.
- › Schedule prepared of when each organisation would perform its own self-assessment and who would conduct the peer review independent validation.

What are Advantages of each Option?

External Assessment Option	Advantages	Disadvantages
Full Scope External Assessment	<ul style="list-style-type: none"> › Review is independent of the organisation. › Should bring ideas from very experienced assessors who have performed many external assessments. 	<ul style="list-style-type: none"> › May be higher cost than some other options.
Peer Reviews	<ul style="list-style-type: none"> › Review is independent of the organisation. › Can be a cost-effective option 	<ul style="list-style-type: none"> › Usually requires training for peer reviewer. › Assessor may not be very experienced and may not bring new ideas.
Self-Assessment followed by an Independent Validation (SAIV)	<ul style="list-style-type: none"> › Review is independent of the organisation. › Builds internal audit quality knowledge through internal audit function performing self-assessment. › Should bring ideas from very experienced assessors who have performed many external assessments. › Can be a cost-effective option. 	<ul style="list-style-type: none"> › Usually requires some training for self-assessment to be effectively conducted.
Preliminary Review followed by Full Scope External Assessment	<ul style="list-style-type: none"> › Review is independent of the organisation. › Should bring ideas from very experienced assessors who have performed many external assessments. › Time between preliminary review and external assessment can be used to implement improvements resulting in a better final report. 	<ul style="list-style-type: none"> › May be higher cost than some other options.

Useful References

IIA-Australia Fact Sheet ‘Quality Assurance and Improvement Program’

IIA-Australia Fact Sheet ‘Self-Assessment with Independent Validation’

IIA-Australia Fact Sheet ‘Who Audits the Auditor?’

IIA-Australia website – there is a comprehensive Internal Audit Quality Toolkit available in the Members Area www.iaa.org.au

IIA-Global ‘International Professional Practices Framework’

IIA-Global ‘Quality Assessment Manual’

