

Quality Assurance and Improvement Activity

January 2023

Quality assurance is intended to increase stakeholder confidence in the credibility, reliability and efficiency of the internal audit program. Achieving quality requires the design, implementation and measurement of processes to deliver the professional internal audit services expected by the audit committee and senior management.

The 'International Standards for the Professional Practice of Internal Auditing' (Internal Auditing Standards) have a number of provisions that relate to measuring the quality of internal audit delivered.

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 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 oversight in the quality assurance and improvement program.

The Institute of Internal Auditors – Australia surveyed Chief Audit Executives (CAEs) to explore the nature of quality assurance processes within internal audit functions. 44 responses were received across a wide section of the economy (Exhibit 1).

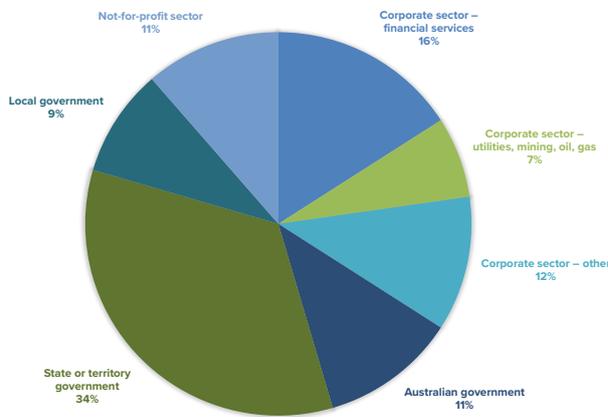


Exhibit 1 – Economic sector of respondents

Program Existence

Ideally, organisations will have established a formal, documented Quality Assurance and Improvement Program (QAIP). 68% of respondents indicated that they had a documented program, 30% indicated that they did not and 2% of respondents were not sure. The existence of a formal, documented QAIP varied considerably by industry. (Exhibit 2). 18% of respondents indicated that they had a QAIP that was not documented.

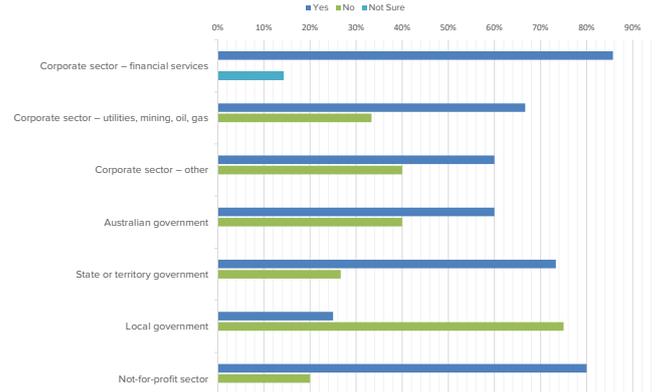


Exhibit 2 – Organisations with formal, documented QAIPs

Structure

STANDARD 1310 - REQUIREMENTS OF THE QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

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

Most organisations have structured their QAIP around the three required components (Exhibit 3). Some organisations reported having a QA program that did not contain activity which fell into these components. The activities that were interpreted in this way included tracking actual activity against budget and staff conflict of interest assertions.

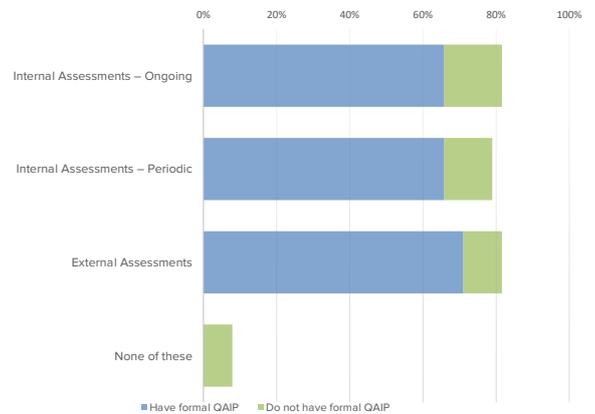


Exhibit 3 – Components of the QAIP

Internal Assessments

STANDARD 1311 – 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 organization with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and the Standards.

Periodic assessments are conducted to evaluate conformance with the Code of Ethics and the Standards.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

Ongoing Internal Assessments

Common techniques of ongoing review include work paper review (84%), client feedback surveys (74%) and formal performance evaluations (55%). Interesting suggestions by individual respondents were challenge sessions and informal retrospectives.

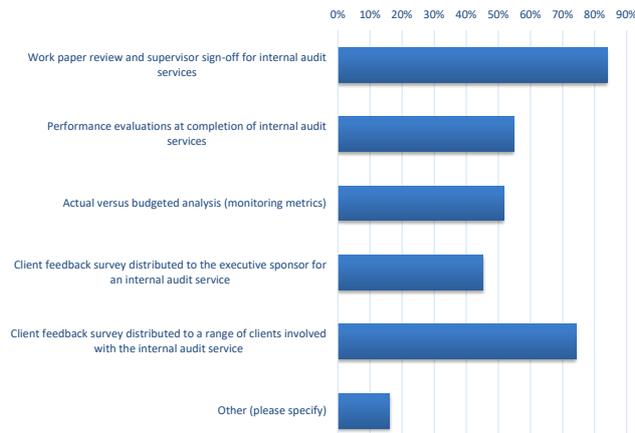


Exhibit 4 - Ongoing Internal Monitoring Techniques in Use

A number of respondents were sole-auditors, that is they had no internal staff and no professional supervisor. In this position, routine work paper review may be difficult, but not impossible, to achieve.

Periodic Internal Assessments

Most respondents indicated that they have periodic staff performance reviews (90%), staff declarations (83%) and self-assessment against the Internal Auditing Standards (80)%. The survey results suggests that where periodic internal review takes place, a wide set of techniques are employed.

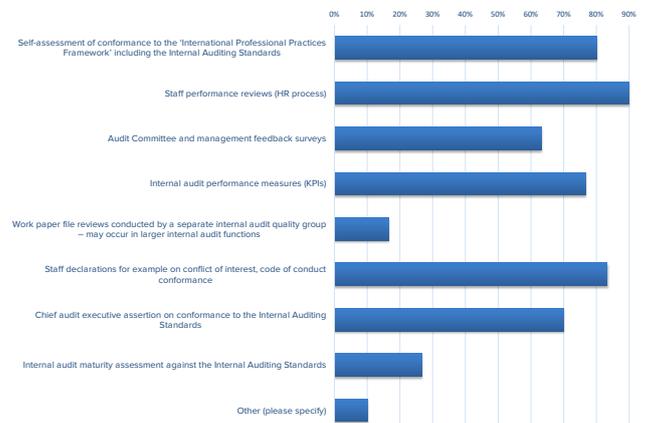


Exhibit 5 - Periodic Internal Monitoring Techniques in Use

Assessment of Service Provider Work

Most respondents (90%) make some use of external service providers to perform internal audit work. The survey did not distinguish between ad hoc engagement and long-term engagement such as in a co-source arrangement. Nearly half (45%) of those who use service providers rely on the internal quality processes of that service provider without seeking any evidence that it is taking place.

Given that the chief audit executive is obliged under the Internal Auditing Standards to ensure that the internal audit activity adds value (Standard 2000 'Managing the Internal Audit Activity') and to report the implications of any departure from the Internal Auditing Standards or Code of Ethics (Standard 1322 'Disclosure of Non-Conformance') we believe that failure to obtain some form of quality information places the chief audit executive in a difficult position. Many (45%) chief audit executives address this problem by seeking formal assurances from the service provider that the Internal Auditing Standards and the Code of Ethics have been complied with. These statements may be for each engagement and/or annual assurances. A larger number (68%) seek declarations on conflict of interest.

While most (63%) organisations require their service providers to provide the work papers at the conclusion of each engagement, only one in three actively reviews these work papers. The (37% of) organisations that do not retain engagement work papers are at risk of losing access to them should they discontinue working with that service provider and have no guarantee that the work papers are properly retained in the manner required by Internal Auditing Standard 2330 'Documenting Information'.

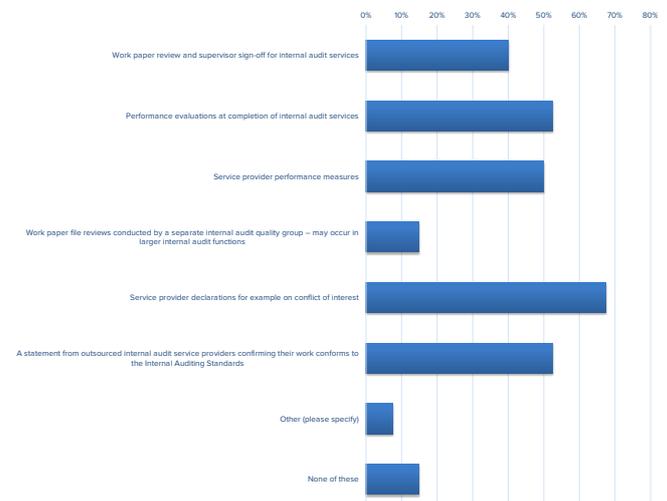


Exhibit 6 - In-house Processes to Manage Service Provider Quality

External Assessments

STANDARD 1312 – EXTERNAL ASSESSMENTS

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

- > The form and frequency of external assessment.
- > 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 organizations 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 organization to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

While most respondents have been subject to an external quality assessment, there is still a significant minority (32%) that have not. A small number of respondents were unsure of whether such a review had been conducted. Adoption of an external review varied considerably by industry (Exhibit 7). Taking into account the relatively small numbers of respondents in some categories, it would be unwise to read too much into this result, but it was surprising to encounter an organisation in the financial services sector that has not had an external review.

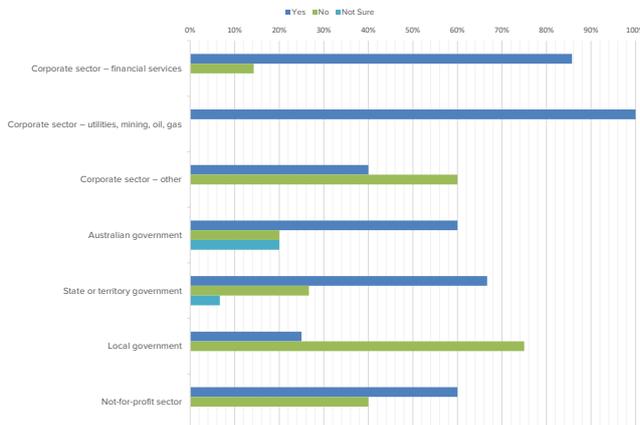


Exhibit 7 - Conduct of External Review by Industry Group

Reporting

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. Disclosure should include:

- > The scope and frequency of both the internal and external assessments.
- > The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- > Conclusions of assessors.
- > Corrective action plans.

Interpretation:

The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments, and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

Excluding those respondents who did not have a QAIP (whether documented or undocumented) we found that most chief audit executives report the results of their program to the audit committee. 78% do this in full and 19% in part. The frequency of reporting varies, but annual reporting is most common.

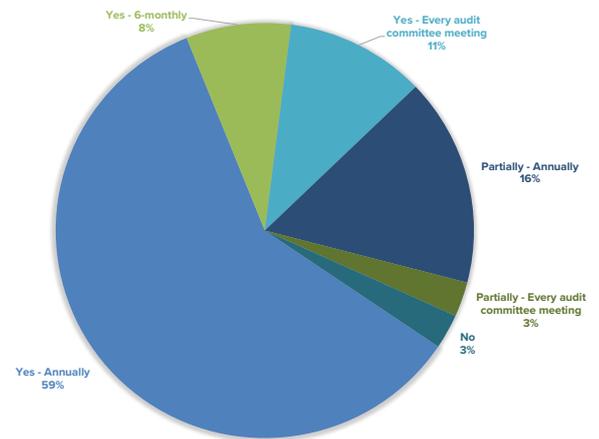


Exhibit 8 - Is the QAIP reported to the Audit Committee?

Summary

A substantial majority of respondents indicate that they have a Quality Assurance and Improvement Program in place even though for a number of respondents this is not documented. Most of these programs include the three suggested streams of activity although there is still a worrying number of internal audit functions that have not had an external assessment. Organisations that use external service providers tend to rely on the internal quality processes of those providers.

Those without a documented program can readily address the issue by using the tools and templates available in the Internal Audit Quality Toolkit on the IIA-Australia website.

Useful References

International Internal Auditing Standards Board, 2016. International Standards for the Professional Practice of Internal Auditing, Lake Mary, FL, USA: Internal Audit Foundation.

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