

External Quality Assessments Responses to 13 Questions

Presentation for the IIA Serbia event

“INTERNAL AUDIT ON THE PATH TO QUALITY”

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The 3 “pillars” of Quality Assessment

1. Internal Assessments

- a) Ongoing monitoring of the performance of the internal audit activity
- b) Periodic self-assessments

2. External Assessments

Q1: is one of the above “more important” than the others? Or they work together as a “set” ?

Practice Guide “Quality Assurance and Improvement Program” provides a holistic analysis

External Quality Assessments (EQA)

Standard 1312 – External Assessment

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: a) The form and frequency of external assessment and b) The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

- *External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.*
- *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 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.*

IPPF Supplemental Guidance

IPPF supplemental guidance: as always the starting point !

- **Implementation Guide 1312 “External Assessments”**
- **&**
- **Practice Advisory 1312-1: External Assessments**
- **Practice Advisory 1312-2: External Assessments / Self-assessment with Independent Validation**
- **Practice Advisory 1312-3: Independence of External Assessment Team in the Private Sector**
- **Practice Advisory 1312-4: Independence of External Assessment Team in the Public Sector**

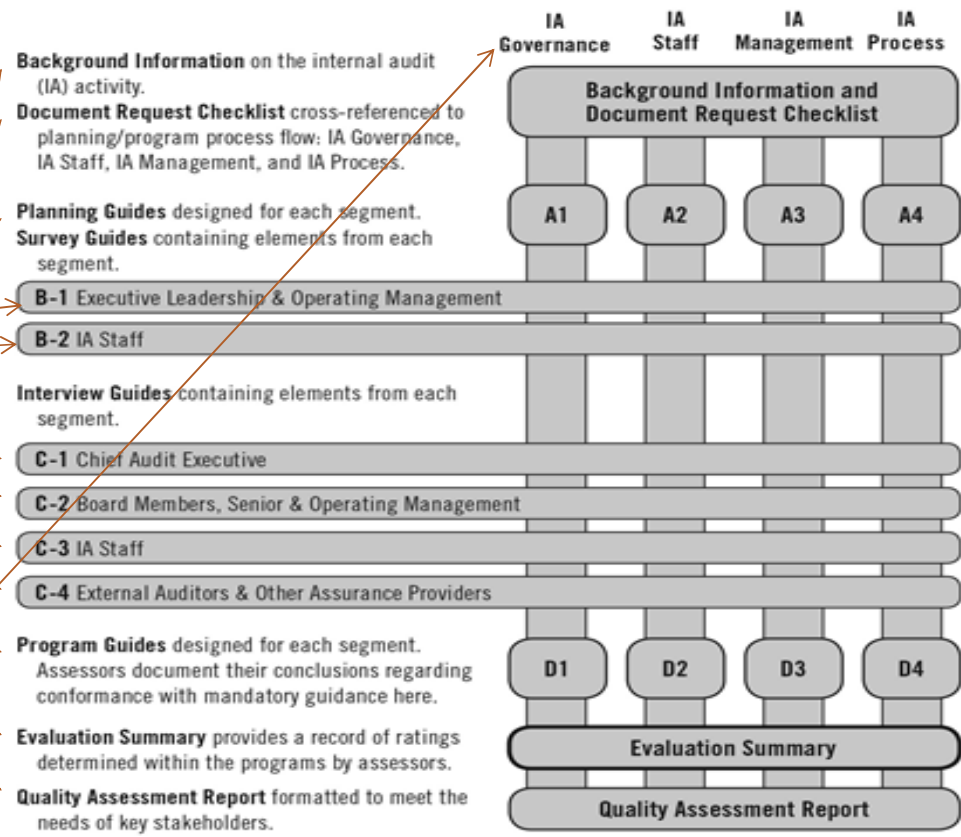
Approach / suggested methodology form IIA (IIA Quality Assessment Manual)

8 Steps to take

1. Background information and planning
2. Surveys
3. Interviews
4. Main fieldwork
5. Evaluation and report

Four elements to evaluate

QUALITY ASSESSMENT PROCESS MAP
Evaluation Summary



The 2 “Approaches” of EQAs

- a) Full external assessment **or**
b) Self-assessment with independent validation

Q2: Which are the criteria for the selection?

Deciding factors:

- The completeness and quality of the self-assessment exercise.
- The maturity and resources of the IAA.
- The available budget and the “peripheral” scope of the assignment (e.g. benchmarking, wide surveys & interviews, consultation, the intention for staff development opportunities etc.).
- The “need” for a completely outsourced /independent view



The 2 “Approaches” of EQAs (cont.)

- Regardless of the approach, external assessors express an opinion on **the entire spectrum** of assurance and consulting work performed (or that should have been performed) by the internal audit activity, including its conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. Assessors also conclude on the **efficiency and effectiveness of the internal audit activity** in carrying out its charter and meeting the expectations of stakeholders.
- The external assessment report also should include, as appropriate, **recommendations** on how management can be improved and how the internal audit activity can add value to the organization. Following an external assessment, **an action plan** should be developed to address any opportunities identified. The results of external assessments must be reported to the board or audit committee.

Q3: will the opinion of the assessor be any different?

The process for the assignment External assessor qualifications

Q4: which are the most important areas that the assessor /assessment team need to show competence?

Regardless of which approach is selected for the external assessment, a qualified, independent external assessor or assessment team must be retained to complete the assessment. **The CAE usually consults with senior management and the board to select the assessor or assessment team.**

Assessors or assessment teams must be competent in two main areas: **the professional practice of internal auditing (including current in-depth knowledge of the IPPF), and the external quality assessment process.**

Preferred qualifications and competencies generally include:

- Certification as an internal audit professional (e.g., Certified Internal Auditor).
- Knowledge of leading internal auditing practices.
- Sufficient recent experience in the practice of internal auditing at a management level, which demonstrates a working knowledge and application of the IPPF.



The process for the assignment External assessor qualifications (cont.)

- Organizations may seek additional qualifications and competencies for assessment team leaders and independent validators, including: a) An additional level of competence and experience gained from previous external assessment work., b) Completion of The IIA's quality assessment training course or similar training, c) CAE (or comparable senior internal audit management) experience and d) Relevant technical expertise and industry experience.

Individuals with expertise in other areas may provide assistance, as appropriate. Examples include specialists in enterprise risk management, IT auditing, statistical sampling, monitoring systems, and control self-assessment.

- The CAE should determine the skills desired for the external assessment and use professional judgment to select the assessor or assessment team. Based on the needs of the internal audit activity, for example, the CAE may prefer individuals with internal audit experience in an organization of a similar size, complexity, and industry, as these professionals may be more valuable. Each individual on the team does not need to possess all of the preferred competencies; rather, the team as a whole should possess the necessary qualifications to provide the best results.



The process for the assignment External assessor Independence and Objectivity

Q5: Is it “just a check” to evaluate the independence and the objectivity of the possible assessors?

- The CAE, senior management, and the board should consider and discuss several factors related to independence and objectivity when selecting an external assessor or assessment team.
- External assessors, assessment teams, and their organizations should be free from actual, potential, or perceived conflicts of interest that could impair objectivity. Potential impairments may include past, present, or future relationships with the organization, its personnel, or its internal audit activity (e.g., external audit of financial statements; assistance to the internal audit activity; personal relationships; previous or future participation in internal quality assessments; or consulting services in governance, risk management, financial reporting, internal control, or other related areas).



The process for the assignment External assessor's Independence and Objectivity (cont.)

- Cases where the potential assessors are:
 - former employees of the internal audit activity's organization,
 - Individuals from another department of the organization,
- In the public sector, internal audit activities in separate entities within the same tier of government are not considered independent if they report to the same CAE.
- Likewise, individuals from a related organization (e.g., a parent organization; an affiliate in the same group of entities; or an entity with regular oversight, supervision, or quality assurance responsibilities with respect to the subject organization) are not considered independent.
- Useful Guidance:



The process for the assignment

Q6: Who initiates the tendering process?

Q7: Who facilitates the tendering process?

Q8: Who makes the final decision?

- Compliance with applicable organizational policies and procedures.
- The CAE has the ultimate responsibility to initiate the process
- The Standards do not provide clear roles. (ref. to the relevant extracts from the Impl. Guide 1312)
 - **A practical approach is the following:** the tendering process could be facilitated by the IAA and /or the Procurement dpt. The Audit Committee makes the final decision based on the information provided by those who facilitate the process and any other relevant information (such as technical and financial proposals)



The preparatory work before the conduct of the assessment

Q9: Who should be implicated? What kind of documentation should be prepared in advance? What about any “sensitive/confidential” information?

- The external assessors usually require in advance a list of information and preparatory material. Some of this material needs to be sent in advance (before on-site visit) and some should be available during the assessors’ visit.
- Critical success factor for the entire assessment process: the diligent preparation and documentation of all the required information including all the necessary evidence and effective indexing and cross referencing of the material.
- Do not forget: the EQA is an audit assignment. The preparation of the auditee is always important.
- Saves time and makes the audit more effective and more efficient.
- Sensitive and confidential information should be treated accordingly, depending on circumstances. Examples.



Involvement during the assessment

Q10: Who should be implicated? Best practices.

- Depends on the size and the structure of the IAA.
- Usually helps if one person from the IAA serves as facilitator and contact person with the assessment team.
- Needs active involvement of the IIA Mgt (CAE and direct subordinates).
- Any issues – findings from the assessment team should be discussed as early as possible.
- Regarding the audit file reviews, it is always useful to have somebody from the audit team available to provide insights and info regarding the assignment and the documentation.

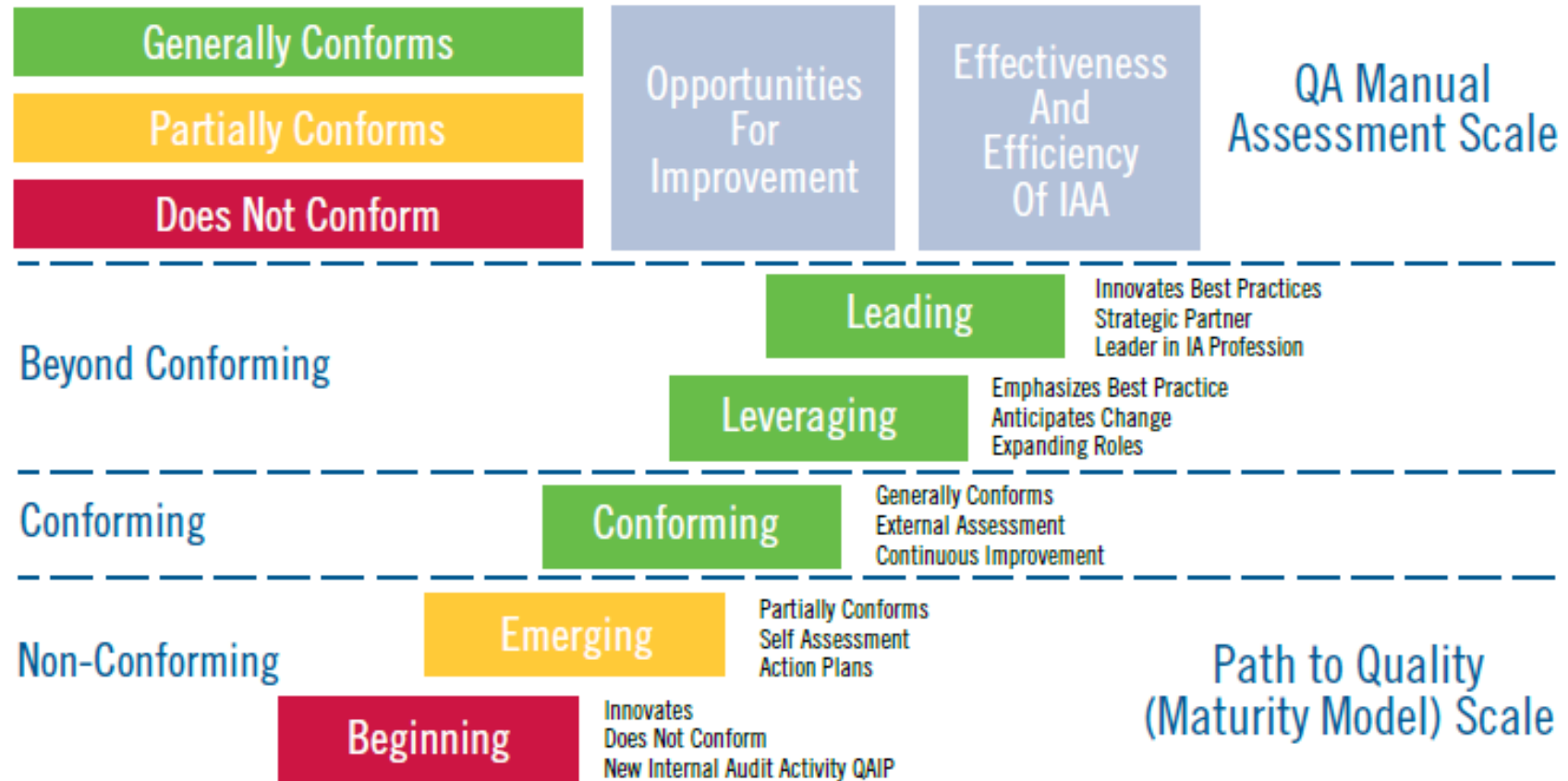
The report of the EQA

Q11: Has the assessment scale an “one option” ?

- A QAIP should include a rating scale to assess the level of conformance of the internal audit activity with the *Standards*. Different options are available when deciding which assessment scale better suits part
- Some of those options include:
 - IIA Quality Assessment Manual Scale: Does Not Conform/Partially Conforms/Generally Conforms.
 - The IIA’s Assessment Scale — IIA Path to Quality: Introductory/Emerging/Established/Progressive/Advanced.
 - IIA Capability Model for the Public Sector: Initial/Infrastructure/Integrated/Managed/Optimizing.
 - DIIR (IIA–Germany) *Guideline for Conducting a Quality Assessment*: 3–Satisfactory/2–Room for Improvement/
1–Significant Improvement Needed/0–Unsatisfactory/Not Applicable).
- A comparison of the first two of these assessment scales is provided in the following diagram.



Assessment Scales



The report of the EQA (cont.)

Definitions about the grades of IIA Quality Assessment Manual Scale: Does Not Conform/Partially Conforms/Generally Conforms

- **GC – “Generally Conforms”** means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual Standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.
- **PC – “Partially Conforms”** means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.
- **DNC – “Does Not Conform”** means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

[For more details and guidance visit the IIA Quality Assessment Manual / Appendix E–Evaluation Summaries](#)

The report of the EQA (cont.)

Types of Observations (IIA Quality Assessment Manual Scale):

- **Successful Internal Audit Practices** – Areas where IA is operating in a particularly effective or efficient manner, especially when compared to the practice of internal auditing demonstrated in other comparable internal audit activities.
- **Recommendations for improvement to ensure Conformance with the *Standards* or the Code of Ethics** – These are areas which are identified during the QA where the assessment team has concluded that IA is operating in a manner that falls short of achieving one or more major objectives, with the *Standards* or the Code of Ethics that results in an opinion for an individual standard of “partially conforms” or “does not conform.” These items will include recommendations for actions to be implemented for achieving “generally in conformance” with the standard.
- **Opportunities for Continuous Improvement** – Observations of opportunities to enhance the efficiency or effectiveness of IAD’s infrastructure of processes. These items do not indicate a lack of conformance with the *Standards* or the Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the *Standards* or the Code of Ethics.

[Q12: how will the auditor conclude on the evaluation grade of an individual Standard and the overall Evaluation Grade? For details and guidance visit the IIA Quality Assessment Manual /Appendix E– Evaluation Summaries](#)

Reporting / Action Plan & Follow up Process

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.*



Reporting / Action Plan & Follow up Process

(cont.)

Q13: Form of the Action Plan: Type - Communication process – Follow up and monitoring Process



- Some good Practices

- Requires CAE's leadership
- Need to “projectise” the most complex objectives
- Monitoring of the action plan could be part of the internal assessment process
- Monitoring/progress of the identified actions should be a standard item in the communication process with the Audit Committee.



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Recommended Guidance


The International Professional Practices Framework (IPPF)[®] is the conceptual framework that organizes authoritative guidance promulgated by The Institute of Internal Auditors. A trustworthy, global, guidance-setting body, The IIA provides internal audit professionals worldwide with authoritative guidance organized in the IPPF as [mandatory guidance](#) and [recommended guidance](#).

Recommended guidance is endorsed by The IIA through a formal approval process. It describes practices for effective implementation of The IIA's [Core Principles](#), [Definition of Internal Auditing](#), [Code of Ethics](#), and [Standards](#). The recommended elements of the IPPF are:

- [Implementation Guidance](#) — assist internal auditors in applying the *Standards*.
- [Supplemental Guidance \(Practice Guides\)](#) — provide detailed processes and procedures for internal audit practitioners.

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Thank you for listening..

Any questions?

