

Internal Audit Quality Assurance Workshop

Budapest
15 June 2012

1. IIA Standards
2. IIA Practice Advisories
3. PEM-PAL Manual Template

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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.*

1310 Requirements of the Quality Assurance and Improvement Program

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





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1311 Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic reviews performed through self-assessment or 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 Definition of Internal Auditing, the Code of Ethics, and the Standards.

Periodic reviews are assessments conducted to evaluate conformance with the Definition of Internal Auditing, 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.





1312 External Assessments

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

- The need for more frequent external assessments; and
- The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.

Interpretation:

*A **qualified reviewer or review 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 a review 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 a reviewer or review team demonstrates sufficient competence to be qualified.

*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.*



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.

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 Definition of Internal Auditing, 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 reviewer's or review team's assessment with respect to the degree of conformance.



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1321 Use of Conforms with the *International Standards for the Professional Practice of Internal Auditing*

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support this statement.

Interpretation:

The internal audit activity conforms with the Standards when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics, and Standards. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.



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1322 Disclosure of Nonconformance

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 chief audit executive must disclose the nonconformance and the impact to senior management and the board.

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Practice Advisory 1300-1: Quality Assurance and Improvement Program

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.

Practice Advisory 1300-1: Quality Assurance and Improvement Program

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.

Practice Advisory 1310-1: Requirements of the Quality Assurance and Improvement Program

A quality assurance and improvement program (QAIP) is an ongoing and periodic assessment of the **entire spectrum** of audit and consulting work performed by the internal audit activity.

This also includes **ongoing measurements** and analyses of performance metrics (e.g., internal audit plan accomplishment, cycle time, recommendations accepted, and customer satisfaction).



Practice Advisory 1311-1: Internal Assessments

A periodic internal assessment performed within a short time before an external assessment can serve to facilitate and reduce the cost of the external assessment.



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Practice Advisory 1312-1: External Assessments

External assessments cover the entire spectrum of audit and consulting work performed by the internal audit activity and should not be limited to assessing its quality assurance and improvement program. To achieve optimum benefits from an external assessment, the scope of work should include **benchmarking**, identification, and reporting of **leading practices** that could assist the internal audit activity in becoming more efficient and/or effective. This can be accomplished through either a **full external assessment** by a qualified, independent external reviewer or review team or a comprehensive **internal self-assessment with independent validation** by a qualified, independent external reviewer or review team.

Practice Advisory 1312-1: External Assessments

External assessments of an internal audit activity contain an **expressed opinion** as to the entire spectrum of assurance and consulting work performed

Individuals who perform the assessment are **independent** of the organization whose internal audit activity is the subject of the assessment and do **not have any real or apparent conflict of interest.**



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Practice Advisory 1312-2:

External Assessments:

Self-assessment with Independent Validation

An external assessment by a qualified, independent reviewer or review team may be troublesome for smaller internal audit activities or there may be circumstances in other organizations where a full **external assessment by an independent team is not deemed appropriate or necessary.**

A qualified, independent reviewer or review team performs sufficient **tests of the self-assessment** so as to validate the results





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Practice Advisory 1312-4: Independence of the External Assessment Team in the Public Sector

In the public sector, **internal audit activities at the different tiers of government may be independent** for the purpose of external assessments.

All members of the assessment team who perform the external assessment are to be **independent** of that organization and its internal auditing activity personnel.

Independent of the organization means **not being under the influence** of the organization whose internal auditing activity is being assessed.





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PEM-PAL Internal Audit Manual Template

1. Quality program
2. Audit entity survey
3. Ongoing supervision
4. Key performance indicators
5. Internal quality assessment
6. External quality assessment

Concluding Remarks



1300 - QUALITY ASSURANCE AND IMPROVEMENT

1310 - QUALITY PROGRAM ASSESSMENT

1320 - REPORTING ON THE PROGRAM

1330 - “CONDUCTED IN ACCORDANCE”

1340 - DISCLOSURE OF NONCOMPLIANCE



QUALITY PROGRAMS

DESIGNED TO ASSURE THAT INTERNAL
AUDIT ACTIVITY

PERFORMS IN LINE
WITH CHARTER

EFFICIENT
AND
EFFECTIVE

ALIGNED WITH
STANDARDS
CODE OF ETHICS

PERCEIVED AS
ADDING VALUE

INTERNAL ASSESSMENTS

ONGOING

- **CONTINUOUS MONITORING**
- **SUPERVISION**
- **CLIENTS FEEDBACK**

PERIODIC

- **AUDIT OF THE AUDIT PROCESS**
- **SELF-ASSESSMENT**

EXTERNAL ASSESSMENTS

**QUALIFIED
INDEPENDENT
REVIEWER**

- **CERTIFIED AUDIT PROFESSIONAL (CIA-CPA-CA-CISA-CCSA)**
- **WELL VERSED**
- **3 YEARS AT MANAGEMENT LEVEL**

**ALTERNATIVE
METHOD**



EXTERNAL REVIEW ALTERNATIVES

- A. FULL BLOWN QUALITY ASSESSMENT**
- B. NON-RECIPROCAL ASSESSMENT**
- C. SELF-ASSESSMENT PLUS EXTERNAL
VALIDATION**

