

# Internal Audit Quality Guide

**Prepared by the Institute of Internal Auditors–Australia**

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# Introduction

# This Guide

- ❑ Explains what Internal Audit should have in place to promote quality assurance and continuous improvement.
- ❑ Provides information on the Quality Assurance and Improvement Program.
- ❑ Explains what is needed for Internal Assessments.
- ❑ Explains how to conduct an independent Quality Assessment (External Assessment).

## This Guide covers

- The Standards.
- The Quality Standards.
- Quality Assurance and Improvement Program.
- External Assessments.
- Conducting a Quality Assessment.
- Quality Assessment Templates.
- Summary.

## Note

Independent reviews of Internal Audit may be called:

- External Assessment.
- Quality Assessment.
- External Quality Assessment.
- Independent Quality Assessment.
- Quality Assurance Review.
- Quality Assessment Review.

# The Standards

# Is Internal Audit a Profession?

A profession requires:

- ❑ A theoretical body of knowledge.

*Internal auditing has the International Professional Practices Framework (IPPF).*

- ❑ Requires relative independence in decision-making in practice.

*Internal Auditors perform their work autonomously by using consistent practices aligned with professional standards contained in the IPPF.*

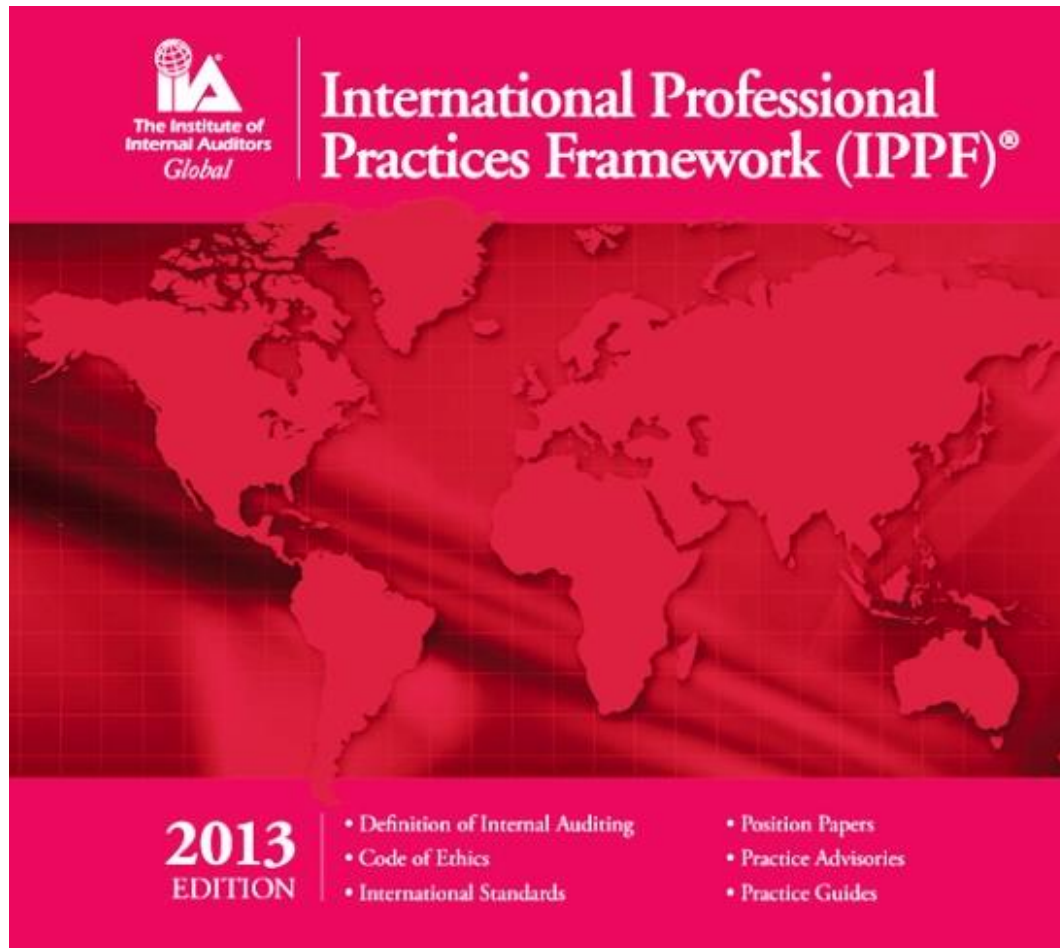
- ❑ Requires specialised education.

*Internal auditing has specialised education and examinations, for example Certified Internal Auditor (CIA).*

- ❑ Has a code of ethics for behaviour of its members.

*Internal auditing has a Code of Ethics.*

# The IPPF





## The IPPF

- The International Professional Practices Framework (IPPF) provides a globally accepted basis for the operation of Internal Audit functions. When the IPPF is adopted:
  - It eliminates the need for local development of standards, thus reducing the cost of regulation.
  - It provides an international benchmark for establishing the quality of Internal Audit operations.
  - It facilitates trans-national operations by contributing to a uniform regulatory regime worldwide.

## The IPPF

- ❑ IPPF standards and guidance are the responsibility of the Internal Auditing Standards Board of IIA–Global.
- ❑ The Board is comprised of a mix of people from around the world including the IIA, Big 4 firms, US Government Accountability Office, chartered accountants, external auditors, and practising internal auditors.

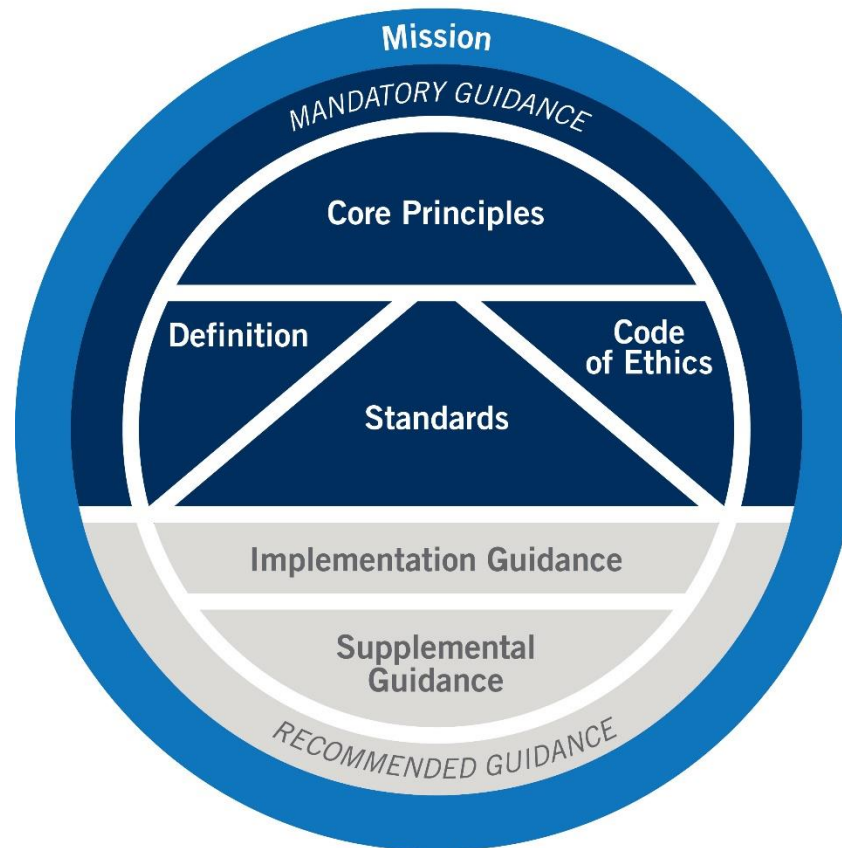
## The IPPF

- ❑ Procedures for the mandatory IPPF provisions require public exposure and formal consideration of comments received from both IIA members and non-members.
- ❑ The standards development process is supervised by an independent body the IPPF Oversight Council of the IIA–Global which is appointed by the IIA–Global Board of Directors and comprises stakeholder representatives.
- ❑ The IPPF was most recently updated in 2015.

# The IPPF



International Professional  
Practices Framework



# Internal Audit Mission

“To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.”

# The IPPF – Mandatory Guidance

- ❑ Core Principles for the Professional Practice of Internal Auditing.
- ❑ Definition of Internal Auditing.
- ❑ Code of Ethics.
- ❑ International Standards for the Professional Practice of Internal Auditing.

# Core Principles

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organisation.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement.

# Definition of Internal Auditing

*“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*



# Code of Ethics

- ❑ States the principles and expectations governing the behaviour of individuals and organisations in the conduct of internal auditing.
- ❑ Describes the minimum requirements for conduct and behaviour expectations.
- ❑ Covers:
  - Integrity.
  - Objectivity.
  - Confidentiality.
  - Competency.

## The Standards

- ❑ The Standards for internal auditing worldwide are the 'International Standards for the Professional Practice of Internal Auditing' issued by the Institute of Internal Auditors.
- ❑ Note: No standards were changed in the 2015 IPPF update.

# The Standards

- ❑ Revised Standards implemented in 2001.
- ❑ They mandated for Internal Audit to have an independent External Assessment at least once every 5 years.
- ❑ The effective date for the first independent External Assessment commenced on 1 January 2002.
- ❑ The first 5 years was up on 1 January 2007.
- ❑ New Internal Audit functions have 5 years from their date of commencement.
- ❑ The IPPF and revised Standards were released in 2009.
- ❑ The IPPF and Standards were most recently revised in 2015.

## Why have Standards?

- ❑ Provide the principles that represent the practice of internal auditing as it should be.
- ❑ Foster improved internal audit process and operations.
- ❑ Provide a framework for performing and promoting a range of value-adding internal audit activities.
- ❑ Establish the basis for evaluation of internal audit performance.

# The Standards

- ❑ The Standards are principle-based (not rule-based).
- ❑ They provide a framework for performing and promoting internal audit.
- ❑ The Standards are mandatory requirements consisting of:
  - Statements of basic requirements for internal auditing.
  - Requirements that are internationally applicable at organisation and individual levels.
  - Interpretations which clarify terms or concepts within the statements.
  - Glossary of terms.

# The Standards

- ❑ The Standards are mandatory and comprise:
  - Attribute Standards.
  - Performance Standards.
- ❑ Also comprises Implementation Standards:
  - A = Assurance.
  - C = Consulting.

# Attribute Standards

- 1000 – Purpose, Authority and Responsibility.
- 1100 – Independence and Objectivity.
- 1200 – Proficiency and Due Professional Care.
- 1300 – Quality Assurance and Improvement Program.

# Performance Standards

- 2000 – Managing the Internal Audit Activity.
- 2100 – Nature of Work.
- 2200 – Engagement Planning.
- 2300 – Performing the Engagement.
- 2400 – Communicating Results.
- 2500 – Monitoring Progress.
- 2600 – Communicating the Acceptance of Risks.



# Glossary

- ❑ Contains useful definitions, explains terminology, and expands meanings.
- ❑ The Glossary is part of the Standards and needs to be read in conjunction with the Standards to gain greater understanding.
- ❑ Contains definitions for:
  - Assurance services.
  - Consulting services.

# The IPPF – Recommended Guidance

- ❑ Not mandatory.
- ❑ Implementation Guidance – Implementation Guides to replace Practice Advisories by end-2016.
- ❑ Supplemental Guidance – Practice Guides.

# Implementation Guidance – Practice Advisories

- ❑ Contains recommended guidance for conducting internal audit activities.
- ❑ Assist Internal Auditors in applying the Standards.
- ❑ Collectively address internal auditing's approach, methodologies, and consideration, but do not detail processes or procedures.

# Implementation Guidance – Practice Guides

- ❑ Contains recommended guidance for conducting internal audit activities.
- ❑ Provides detailed guidance for conducting internal audit activities.
- ❑ Includes topical areas, sector-specific issues, as well as processes and procedures, tools and techniques, programs, step-by-step approaches, and examples of deliverables.

## Who is the Chief Audit Executive?

- ❑ The top position within the organisation responsible for Internal Audit activities – normally a person in a senior position responsible for effectively managing the internal audit activity.
- ❑ The specific job title of the Chief Audit Executive may vary across organisations.
- ❑ Where Internal Audit activities are obtained from service providers, the Chief Audit Executive is the person responsible for overseeing the service contract and the quality of the services.

# Case Study 1 – Internal Audit Charter

# Case Study 1 – Internal Audit Charter

- ❑ You will be given an Internal Audit Charter.
- ❑ Review the Internal Audit Charter as part of your Quality Assessment and comment on its strengths and areas where it could be improved.
- ❑ Use the Internal Audit Charter Review Checklist.

# The Quality Standards



# Standard 1300

## Quality Assurance and Improvement Program

The overarching standard on quality in internal auditing.

*“The Chief Audit Executive must develop and maintain a Quality Assurance and Improvement Program that covers all aspects of the internal audit activity.”*

# Standard 1310

## Requirements of the Quality Assurance and Improvement Program

*“The Quality Assurance and Improvement Program must include both internal and external 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 organisation with sufficient knowledge of internal audit practices.”*

# 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 organisation. 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.”*

# 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.”*

## Standard 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.”*

# Standard 1322

## Disclosure of Non-conformance

*“When non-conformance 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 non-conformance and the impact to senior management and the Board.”*

# Quality Assurance and Improvement Program



# Quality Assurance and Improvement Program

Needs to have:

- Internal Assessments – Ongoing
- Internal Assessments – Periodic.
- External Assessments.

## Internal Assessments – Ongoing

- ❑ Work paper reviews and supervisor sign-off for inhouse internal audit engagements.
- ❑ Performance evaluations for inhouse internal audit engagements.
- ❑ A regular statement from service providers (eg after each audit, or quarterly, or annually) confirming their work conforms to the Standards.
- ❑ Performance evaluations for outsourced internal audit engagements.
- ❑ Actual versus budgeted analysis (monitoring metrics).
- ❑ Client feedback surveys.

# Internal Assessments – Periodic

- ❑ Review of the Internal Audit Charter.
- ❑ Self-assessment to assess conformance with the Standards for both internal engagements and those completed by service providers.
- ❑ Assessment of competency planning for the internal audit activity overall, and progress in delivering identified professional development initiatives.
- ❑ Staff performance reviews (HR process).
- ❑ Performance measures (KPIs).
- ❑ File reviews for inhouse internal audit engagements.
- ❑ File reviews for outsourced internal audit engagements.
- ❑ Staff declarations.
- ❑ Assertion on conformance with Internal Auditing Standards.

# External Assessments

- ❑ At least once every 5 years.
- ❑ By a qualified, independent assessor or assessment team.
- ❑ The assessor must be from outside the organisation to be independent.
- ❑ It is a good idea to include the 5-yearly Quality assessment in the Internal Audit Plan.

## What about outsourced Internal Audit?

- ❑ A Quality Assessment is about the organisation, so the organisation is responsible.
- ❑ The outsourced service provider should advise the organisation of its quality obligations.
- ❑ There still needs to be such things as:
  - Internal Audit Charter.
  - Internal Audit policies and procedures.
  - Quality Assurance and Improvement Program.
  - Internal Assessments and External Assessments

# How do we prove we are a quality Internal Audit function?

<b>Quality Assurance and Improvement Program including External Assessments</b>	<b>Performance Measures</b>
<b>Reviews by External Audit</b>	<b>Reviews by Regulatory Bodies</b>

# External Assessments

## An External Assessment typically covers

- ❑ Conformance to the Core Principles.
- ❑ Conformance to the Definition of Internal Auditing.
- ❑ Conformance with the Code of Ethics.
- ❑ Conformance to the Standards.
- ❑ Whether the expectations of Internal Audit by the Audit Committee and Senior Executives are being met.
- ❑ Opportunities for improvement.



## It provides an independent view

- 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?

## It also provides opportunities

- ❑ 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 Internal Audit Standards.
- ❑ Identify opportunities for improvement within Internal Audit.
- ❑ Prove Internal Audit's worth to its clients.

## External Assessments – Methods

1. External Assessment with the review conducted by an assessor or assessment team independent of the organisation.
2. Peer Reviews between 3 or more organisations.
3. Self-Assessment followed by an Independent Validation (SAIV) conducted by an external Independent Validator.

# 1. Independent External Assessment

- ❑ The organisation engages an assessor or assessment team to conduct an independent Quality Assessment of the Internal Audit function.
- ❑ The assessor needs to be independent of the organisation.

## 2. Peer Review

- ❑ Must be 3 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.

## 3. Self-Assessment with Independent Validation (SAIV)

- ❑ The Internal Audit function conducts its own Self-Assessment and determines its conformance with the Standards.
- ❑ An Independent Validator is selected who reviews documentation, conducts a small number of confirmatory interviews, and performs limited testing.
- ❑ The Independent Validator agrees or disagrees with the Self-Assessment.
- ❑ A single report is issued.
- ❑ The Independent Validator needs to be independent of the organisation.

# Self-Assessment with Independent Validation (SAIV)

- ❑ SAIV can be a cost-effective method for conducting a Quality Assessment.
- ❑ This method is promoted by the Institute of Internal Auditors.

# The SAIV Process

- ❑ Internal Audit includes a Quality Assessment in its Annual Internal Audit Plan in the year it is due.
- ❑ Internal Audit conducts its own Self-Assessment.
- ❑ An Independent Validator then conducts the Independent Validation.



## The SAIV Process

- The Independent Validator can issue a dissenting report if agreement cannot be reached with the Chief Audit Executive on the outcomes of the Quality Assessment.

# Who can conduct Quality Assessments?

- ❑ Independent, qualified assessors or assessment teams – ideally should have senior management experience in Internal Audit.
- ❑ Assessors should be knowledgeable about the Standards and Quality Assessment process.
- ❑ Preferably Certified Internal Auditors (CIAs).
- ❑ May have Certified Information Systems Auditors (CISAs) involved if a Quality Assessment calls for specific review of ICT audit.

# Who does conduct Quality Assessments?

- ❑ Professional service firms.
- ❑ Outsourced providers of Internal Audit services.
- ❑ Independent consultants.
- ❑ The Institute of Internal Auditors.

# Conducting a Quality Assessment

# Before the Quality Assessment

The Internal Audit function to be assessed will:

- Agree the Quality Assessment objectives with the Audit Committee.
- Includes a Quality Assessment in its Annual Internal Audit Plan.
- Schedule the Quality Assessment.

# Conducting the Quality Assessment

- ❑ Quality Assessment commences.
- ❑ Opening Meeting.
- ❑ Work Paper File is commenced.
- ❑ Reference material is gathered.
- ❑ Internal Audit Charter is reviewed.
- ❑ Management interviews are conducted.
- ❑ Audit Committee interviews are conducted.
- ❑ Internal Audit Staff interviews are conducted.

# Conducting the Quality Assessment

- ❑ Internal Audit operations are reviewed.
- ❑ Internal Audit Quality Assurance and Improvement Program (QAIP) is reviewed.
- ❑ Internal audit engagement Work Papers are reviewed.
- ❑ Evaluation against the Standards is conducted.
- ❑ Draft Quality Assessment Report is prepared.
- ❑ Closing Meeting.
- ❑ Final Quality Assessment Report is prepared.

# Informing Management

- ❑ Report issued to the Audit Committee and senior management.
- ❑ Presentation to the Audit Committee by the Assessment Team.



## Monitoring and Follow-up

- ❑ Improvements to be implemented by Internal Audit.
- ❑ Implementation of improvements to be monitored by the Audit Committee.
- ❑ Implementation of improvements to be followed-up at the next Quality Assessment.

# Quality Assessment Templates

# Quality Assessment Templates

- Quality Work Paper Index.
- Internal Audit Charter Review Checklist.
- Discussion Templates.
- Feedback Survey Templates.
- Quality Assessment Analysis Template.
- Work Paper Analysis Template.
- Quality Assessment Report Template.

## QA Work Paper Index

- ❑ Used as an index for the QA Work Paper File.
- ❑ It assists collection of relevant documents for the Quality Assessment.

# QA Interview Templates

- ❑ Usually used for discussions with:
  - Senior Executives.
  - Audit Committee Members.
  - Internal Audit Staff.
- ❑ They are used as a guide to ask questions and obtain feedback for the Quality Assessment.

# Internal Audit Charter Review Checklist

- ❑ A checklist to review whether the Internal Audit Charter:
  - Conforms with mandatory requirements of the Standards.
  - Includes other good practice attributes.

## QA Analysis Template

- ❑ Lists all the Standards and provides examples of evidence necessary for an assessment to be made on conformance with the Standards.

## QA QAIP Checklist

- ❑ Lists examples that can be used to determine if Internal Audit has an effective Quality Assurance and Improvement Program (QAIP).



## QA Work Paper Analysis Template

- ❑ Lists the Standards relevant to performing an internal audit engagement.
- ❑ A representative sample of internal audit engagements should be selected for review.
- ❑ Each internal audit engagement is assessed as 'Adequate' or 'Not Adequate' in relation to conformance with the Standards.

## QA Report Template

- ❑ Draft Quality Assessment report is completed.
- ❑ It will take the information in the completed QA Analysis Template and complete the draft report section Appendix E – ‘Evaluation against the Standards’ to rate each Standard as:
  - Generally conforms (green).
  - Partially conforms (yellow).
  - Does not conform (red).

# Summary

## Summary

- ❑ Every Internal Audit function needs to have a documented Quality Assurance and Improvement Program (QAIP) in place.
- ❑ There needs to be a program of both Internal Assessments and External Assessments.
- ❑ An External Assessment has the potential to get the Chief Audit Executive added credibility with Management and the Audit Committee.

# Summary

- ❑ A Quality Assessment is about improving internal audit.
- ❑ A Quality Assessment should not be treated as a 'pass' or 'fail' exercise.
- ❑ A Quality Assessment needs to be planned, conducted and completed on time, on budget and be a quality product – so that it demonstrates best practice.

# Case Study 2 – Quality Assessment

## Case Study 2 – Quality Assessment

- ❑ The Case Study is a Quality Assessment Template completed for the Internal Audit function of an organisation.
- ❑ The Quality Assessment Template includes issues observed in some Internal Audit functions.

## Case Study 2 – Quality Assessment

- ❑ The task is to take the information contained in the Case Study and use Appendix E – ‘Evaluation against the Standards’ in the Report Template.
- ❑ You need to consider the information and rate each Internal Audit Standard for the case study as either:
  - Generally conforms (green).
  - Partially conforms (yellow).
  - Does not conform (red).
- ❑ You also need to consider what recommendations for improvement should go in the report.



## Case Study 2 – Quality Assessment

- ❑ Participants will break into groups.
- ❑ Each group will separately rate the case study against each Internal Audit Standard plus also draft recommendations for improvement.
- ❑ When completed, we will come together and each group will present its results.
- ❑ When all results are recorded, there will be discussion about the different opinions put forward.