

## Dear Q&A

**What is the position when internal audit engagements are performed by external service provider firms? Is the organisation's internal audit function still responsible for the quality of internal audit work performed by an external service provider firm? If internal audit work is done by a firm, the firm would presumably have its own internal quality assurance procedures over its work. Would the organisation contracting the firm also have any quality assurance responsibility?**

### Answer

Internal Audit Standard 1300 requires “The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.”

There is often a problem with this. The 1300 series Internal Audit Standards are the least understood by internal auditors, and in many internal audit functions is where non-conformance with the Standards occurs.

When asked to show their quality assurance and improvement program, many chief audit executives and internal auditors say there is audit supervision and sign-off, feedback surveys after audits, and so on. But when asked about a single document containing a formal quality assurance and improvement program, any internal audit functions do not have one.

A quality assurance and improvement program is a document that clearly articulates how the chief audit executive maintains quality over the internal audit function and its activities. It needs to contain:

- › Internal assessments – ongoing.
- › Internal assessments – periodic.
- › External assessments.
- › Results reported to senior management and the audit committee.
- › Disclosure of any non-conformances.

The internal audit function is owned by the organisation, so the organisation is responsible for internal audit quality. An outsourced internal audit service provider should advise the organisation of quality obligations. Even if the internal audit function is outsourced, there still needs to be such things as:

- › Internal audit charter.
- › Internal audit policies and procedures.
- › Quality assurance and improvement program.
- › Internal assessments and 5-year external quality assessments.
- › Reporting on results of the quality assurance and improvement program.

So, the answer is:

- › › In the case of a co-sourced internal audit function, the organisation's quality assurance and improvement program should be put in place by the in-house internal audit function. Service provider quality procedures over internal audit engagements should be visible and reported to the contracting organisation. This can include the contracting organisation writing into the contract that they own the work papers and are to receive copies after audits are completed.
- › › The contracting organisation should make sure a comprehensive quality assurance and improvement program is put in place by an outsourced internal audit service provider where a full scope internal audit service is provided. A simple example of a quality assurance and improvement program can be found on the IIA-Australia website at: <https://www.iaa.org.au/my-iaa/memberservices/quality-toolkit>

Also refer the IIA-Australia Factsheet 'Quality Assurance and Improvement Program' available at:

[http://iaa.org.au/sf\\_docs/default-source/technicalresources/2018-fact-sheets/quality-assurance-andimprovement-program.pdf?sfvrsn=2](http://iaa.org.au/sf_docs/default-source/technicalresources/2018-fact-sheets/quality-assurance-andimprovement-program.pdf?sfvrsn=2)