



# Factsheet: Who Audits the Auditor?

## Introduction

Many people ask: “Who audits the auditor?”

Internal audit examines many parts of the organisation, so it is only natural the quality of internal audit itself should be reviewed from time-to-time.

Internal audit is covered by the ‘International Professional Practices Framework’ (IPPF) issued by the Institute of Internal Auditors globally. This includes mandatory guidance for internal audit:

- > ‘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’.

## What is Quality?

Quality is not absolute. The quality of a product or service is the degree to which the product or service meets the customer’s expectations — the degree to which it is fit-for-purpose. Internal audit needs to be fit-for-purpose to provide services expected by the audit committee, chief executive officer and senior management.

Delivery of a quality product or service does not just happen – it needs to be managed. Quality involves an ongoing effort to identify what good quality looks like and to ensure it is being achieved consistently. Periodic external assessment by an independent assessment team can assist internal audit on the path to quality:

## Quality Assurance and Improvement Program

Internal Audit Standard 1300 requires internal audit to develop and maintain a quality assurance and improvement program:

- > Ongoing internal assessments which may include:
  - > Work paper review and supervisor sign-off for internal audit engagements – in-house and service provider.
  - > Performance evaluations for internal audit engagements – in-house and service provider.
  - > Actual versus budgeted analysis (monitoring metrics).
  - > Audit client feedback survey after internal audit engagements.
- > Periodic internal assessments usually performed annually which may include:
  - > Review of the internal audit charter.
  - > Self-assessment of conformance to the Internal Audit Standards.
  - > Staff performance reviews (HR process).
  - > Audit committee and management feedback surveys.
  - > Performance measures (KPIs).
  - > File reviews for internal audit engagements – in-house and service providers - usually in larger internal audit functions.
  - > Staff declarations.
  - > Assertion on conformance to the Internal Audit Standards.



- › A statement from an outsourced internal audit service provider confirming their work conforms to the Internal Audit Standards.
- › External assessments performed at least once every 5 years by a qualified, independent assessor or assessment team from outside the organisation.

## Why have an External Assessment?

An external assessment is a comprehensive review that examines internal audit for such things as:

- › Conformance of internal audit services to mandatory requirements of the IPPF.
- › Expectations of internal audit services expressed by the audit committee, chief executive officer and senior management, and whether these are being met.
- › Effectiveness of internal audit as a 3rd line of assurance function integrated into the strategic management and governance framework.
- › Whether internal audit operations represent contemporary good practice and add value to improving business operations.
- › Skills, knowledge and experience capability within internal audit.
- › Opportunities for improvement.

It is a way of proving to the audit committee and senior management the value that Internal Audit is adding to the organisation. It can also harness the experience of the independent assessment team to share insights gained from external assessments of other internal audit functions.

The external assessment process usually includes confidential discussions with audit committee members, chief executive officer and senior management to obtain their perceptions of internal audit performance. It can also include confidential surveys of middle management and benchmarking against other internal audit functions in similar industries. An assessment of internal audit maturity by the assessment team can also be included.

## Conclusion

Above all, an independent external assessment shows the chief audit executive to be a professional. This occurs in two ways:

- › By putting their internal audit function up for scrutiny in much the same way as when we audit parts of the organisation.
- › By conforming to the Internal Audit Standards.