



– Practice Guide

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

MARCH 2012

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Executive Summary

The IIA's International Professional Practices Framework (IPPF) defines a quality assurance and improvement program (QAIP) as:

An ongoing and periodic assessment of the entire spectrum of audit and consulting work performed by the internal audit activity. These ongoing and periodic assessments are composed of rigorous, comprehensive processes; continuous supervision and testing of internal audit and consulting work; and periodic validations of conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. This also includes ongoing measurements and analyses of performance metrics (e.g., internal audit plan accomplishment, cycle time, recommendations accepted, and customer satisfaction). If the assessments' results indicate areas for improvement by the internal audit activity, the chief audit executive (CAE) will implement the improvements through the QAIP.

The following *International Standards for the Professional Practice of Internal Auditing (Standards)* are relevant to the development of a QAIP:

- 1300: Quality Assurance and Improvement Program.
- 1310: Requirements of the Quality Assurance and Improvement Program.
- 1311: Internal Assessments.
- 1312: External Assessments.
- 1320: Reporting on the Quality Assurance and Improvement Program.
- 1321: Use of “Conforms with the *International Standards for the Professional Practice of Internal Auditing*.”
- 1322: Disclosure of Non-conformance.

Additional guidance on applying these *Standards* can be found in the following IIA Practice Advisories:

- 1300-1: Quality Assurance and Improvement Program.
- 1310-1: Requirements of the Quality Assurance and Improvement Program.
- 1311-1: Internal Assessments.
- 1312-1: External Assessments.
- 1312-2: External Assessment – Self-assessment with Independent Validation.
- 1312-3: Independence of the External Assessment Team in the Private Sector.
- 1312-4: Independence of the External Assessment Team in the Public Sector.
- 1321-1: Use of “Conforms with the *International Standards for the Professional Practice of Internal Auditing*.”

All CAEs are required to develop a QAIP that includes both internal and external assessments. Internal assessments will include both ongoing monitoring and periodic self-assessment. External assessments may be either a full external assessment or a self-assessment with independent validation.

Under the QAIP, quality should be assessed at both an individual audit engagement level as well as at a broader internal audit activity level. A well-developed QAIP will ensure that quality is built in to, rather than on to, the way the internal audit activity operates. In other words, an internal audit activity should not need to assess whether each individual engagement conforms to the *Standards*. Rather, engagements should be undertaken in accordance with an established methodology that promotes quality and, by default, conformance with the *Standards*.

This document provides guidance on the key elements of a QAIP. It covers those elements required for conformance with the *Standards* as well as elements that constitute better practice. QAIPs need to be tailored to the specific needs of each internal audit activity and, therefore,

may come in a myriad of forms. However, this document provides a generic framework for developing a QAIP that could be applied regardless of the size or nature of the internal audit activity.

Introduction

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.

Delivering quality requires a systematic and disciplined approach as professionals — quality does not just happen. It is the combination of the right people, the right systems, and a commitment to excellence. It is driven by the leaders of the organization who are responsible for setting the “tone at the top.”

Quality has both retrospective and forward-looking elements. It includes an analysis of the degree to which existing products and services are fit for purpose and conform with standards, the efficiency of the service delivery process, as well as an assessment of the degree to which current practices will meet emerging stakeholder expectations.

Given the different elements of quality, recognizing who the customers and stakeholders are is a key step in the quality process. For an internal audit activity, this could include the board, senior management, the external auditor, and operational managers. It also could include customers and stakeholders of the broader organization such as shareholders, oversight organizations, regulators, and government agencies.

Quality in Internal Audit

Quality in internal audit is guided by both an obligation to meet customer expectations as well as professional responsibilities inherent in conforming to the *Standards* (described in the Context section). While predominantly complementary, it is a challenge for the CAE to achieve both these requirements.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

(Extract from the IPPF Definition of Internal Auditing)

Standards 1300 through 1312 specifically require the CAE to develop a QAIP incorporating both internal (self) assessments and external assessments. However, beyond these specific standards, internal audit as a profession should maintain a formal, structured approach to quality. This includes operating with proficiency and due professional care, undertaking continuing professional development, and conforming to a set of recognized standards. Each of these allows internal audit to differentiate itself from non-professional areas.

Under the IPPF, the CAE may state that the internal audit activity conforms with the *Standards* only if the results of the QAIP support this statement. 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 CAE must disclose the non-conformance and the impact to senior management and the board.

Conformance or Compliance?

Conformance with standards is a technical term borrowed from the quality management discipline. It is not about complying with the letter of the standard. Someone who is

in conformance with a standard is expected to achieve the spirit of the standard. This is consistent with a principles-based approach.¹

Embedding Quality in Systems and Processes

Quality in internal audit begins with the structure and organization of the audit activity. Quality should be built in to, and not on to, the way the activity conducts its business — through its internal audit methodology, policies and procedures, and human resource practices. Each of these should be premised on a common understanding of quality and stakeholder perception of value. Ultimately, the QAIP should measure whether internal audit is meeting its own objectives, as well as those of the broader organization.

Overview of a Quality Assurance and Improvement Program (QAIP)

A QAIP should conclude on the quality of the internal audit activity and lead to recommendations for appropriate improvements. It enables an evaluation of:

- Conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.
- The adequacy of the internal audit activity's charter, goals, objectives, policies, and procedures.
- The contribution to the organization's governance, risk management, and control processes.
- Completeness of coverage of the entire audit universe.
- Compliance with applicable laws, regulations, and government or industry standards to which the internal audit activity may be subject.
- The risks affecting the operation of the internal audit

activity itself.

- The effectiveness² of continuous improvement activities and adoption of best practices.
- Whether the internal audit activity adds value, improves the organization's operations, and contributes to the attainment of objectives.

To achieve comprehensive coverage of all aspects of the internal audit activity, a QAIP must effectively be applied at three fundamental levels (or perspectives):

- **Internal Audit Engagement Level** (self-assessment at the audit, engagement, or operational level):
The engagement supervisor (possibly a manager or the CAE) is responsible for providing assurance that:
 - Appropriate processes have been used to translate audit plans into specific, appropriately resourced audit engagements.
 - Planning, fieldwork conduct, and reporting/communicating results conform to the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.
 - Appropriate mechanisms are established and used to follow-up management actions in response to audit recommendations.
 - Post-engagement client surveys, lessons learned, self-assessments, and other mechanisms to support continuous improvement are completed.
- **Internal Audit Activity Level** (self-assessment at the internal audit activity or organizational level):
The CAE is responsible for providing assurance that:
 - Written policies and procedures, covering both technical and administrative matters, are formally documented to guide audit staff in consistent conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.

¹ Chartered Institute of Internal Auditors UK and Ireland, Professional guidance for internal auditors – Quality assurance and improvement programmes, 2007

² Consideration could be given to The IIA's Practice Guide, Measuring Internal Audit Effectiveness.

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- Audit work conforms to written policies and procedures.
 - Audit work achieves the general purposes and responsibilities described in the internal audit charter.
 - Audit work conforms to the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.
 - Internal audit work meets stakeholder expectation.
 - The internal audit activity adds value and improves the organization’s operations.
 - Resources for the internal audit activity are efficiently and effectively utilized.
- **External Perspective** (independent external assessment of the entire internal audit activity including individual engagements):
 - The CAE must ensure that the internal audit activity undergoes an external assessment (either an *independent* external assessment or a self-assessment with *independent* validation) at least once every five years by an **independent** assessor or assessment team from outside the organization that is qualified in the practice of internal auditing as well as the quality assessment process.
 - 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.

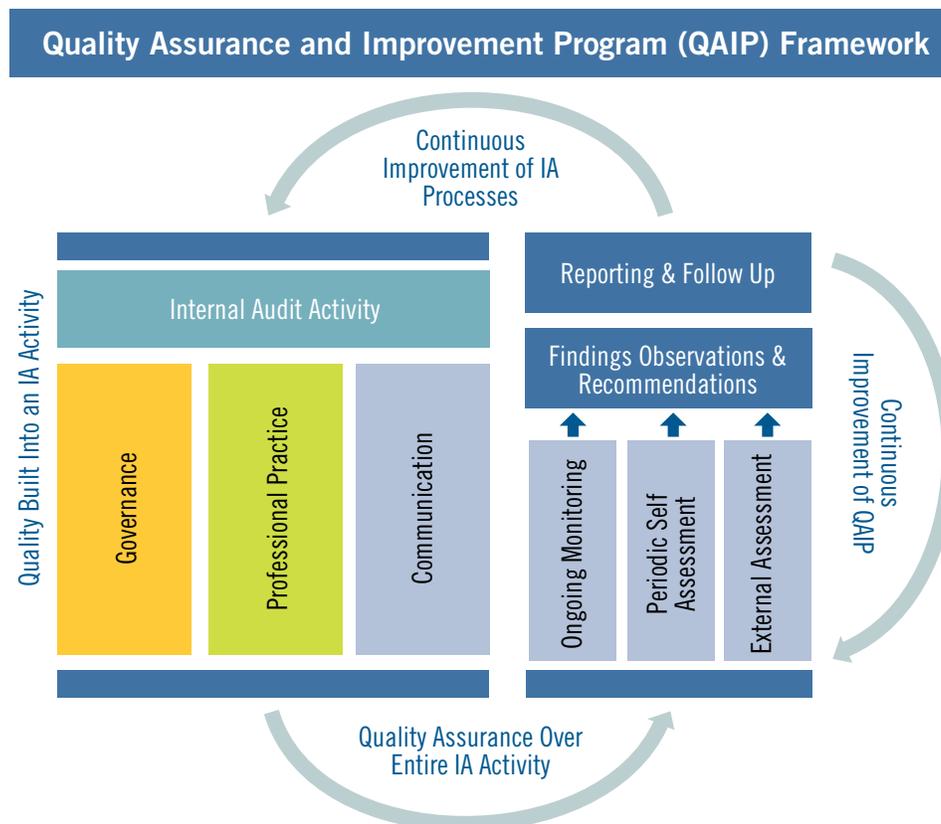


Diagram 1

Diagram 1 on page 4 provides a framework for embedding quality assurance and continuous improvement into an internal audit activity. The framework considers three separate activities or sections within an internal audit activity: governance, professional practice, and communication. These activities are discussed further in the “Sample Approach — Program Sections Within an Internal Audit Activity” section on page 11 and in Appendix C — QAIP Components.

The QAIP framework assumes that quality is built in to (and not on to) the structure of the internal audit activity and that quality assessments are undertaken over the entire activity. As per the *Standards*, quality assessments take the form of ongoing monitoring, periodic self-assessment, and external assessment. Each of these types of assessments is discussed further in the “Quality Assessments” section below.

The framework is intended as guidance only. CAEs may develop their own QAIP structure; however, the common elements of all QAIPs are that they:

- Cover all aspects of the internal audit activity.
- Enable an evaluation of conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.
- Assess the efficiency and effectiveness of the internal audit activity.
- Identify opportunities for improvement.

Quality Assessments

Assessments, whether internal self-assessments or external assessments, should include coverage of the entire internal audit activity. Using the model presented in Diagram 1 on page 4, this would include the quality of the governance activities and structures, professional practices, and communication processes. The main elements,

along with some of the key objectives to be assessed, have been included in Appendix C — QAIP Components.

Internal Assessments

Internal quality assessments are comprised of two interrelated parts: ongoing monitoring and periodic self-assessment³.

Ongoing Monitoring

Ongoing monitoring provides assurance that the processes in place are working effectively to ensure quality is delivered on an audit-by-audit basis. It is primarily achieved through continuous monitoring activities including engagement planning and supervision, standard working practices, working paper procedures and signoffs, and report reviews. Additional mechanisms include:

- Acquiring feedback from audit clients and other stakeholders.
- Assessing audit engagement readiness prior to fieldwork by looking for items like pre-approval of the audit scope, innovative best practices, budgeted hours, and assigned staff (expertise).
- Using checklists or internal audit automation to give assurance on whether processes adopted by the internal audit activity (e.g., internal audit policies and procedures manuals) are being followed.
- Using measures of project budgets, timekeeping systems, and audit plan completion to determine if appropriate time is spent on different aspects of the audit process, as well as high risk and complex areas.
- Analyzing other performance metrics to measure stakeholder value.

Any weaknesses or areas for improvement should be addressed on an ongoing basis, as they are identified, and the results of ongoing monitoring must be reported to the board at least annually.

³ The term “periodic reviews,” used by The Institute of Internal Auditors in the IPPF, has been replaced by “periodic self-assessment” throughout this practice guide.

Periodic Self-assessment

A periodic self-assessment has a different but interrelated focus to ongoing monitoring. Periodic self-assessments focus on evaluating:

- Conformance with the internal audit charter, The IIA's Definition of Internal Auditing, the Code of Ethics, and the *Standards*.
- The quality of the audit work, including adherence to the internal audit methodology for selected engagements.
- The quality of supervision.
- The infrastructure, including the policies and procedures, supporting the internal audit activity.
- The ways the internal audit function adds value to the organization.
- The achievement of performance standards/indicators.

Periodic self-assessments should be conducted through:

- Working paper reviews for conformance with the Definition of Internal Auditing, the Code of Ethics, the *Standards*, and internal audit policies and procedures by staff not involved in the respective audits.
- Self-assessment of the internal audit activity with objectives/criteria established as part of the QAIP (See Appendix C for further definition of the key components of governance, professional practice, and communication).
- Review of internal audit performance metrics and benchmarking of best practices.
- Periodic activity and performance reporting to the board and other stakeholders as deemed necessary.

A well-designed periodic self-assessment program provides the CAE with information related to conformance with the *Standards* (Attribute and Performance

Standards). The QAIP should document and define a systematic and disciplined approach to the periodic self-assessment process, including how to accomplish the periodic self-assessments and define the scope of activity for each interim year between the external quality assessments. This complement of ongoing monitoring and periodic self-assessments provides an effective structure for continuous assessment of internal audit conformance and improvement opportunities.

The main objectives of periodic self-assessments are:

- To identify the quality of ongoing performance and opportunities for improvement in internal audit processes and procedures.
- To check and validate the objectives and criteria used in the QAIP to determine whether they are still up to date, adequate, and valid.

Periodic self-assessments may include in-depth interviews and surveys of stakeholder groups, as well as benchmarking the internal audit activity's practices and performance metrics against relevant best practices.

Following a self-assessment, an action plan should be developed to address any identified areas for improvement. This plan should include proposed timelines for actions. The result of the periodic self-assessments and the level of conformance to the *Standards* must be reported to the board at the completion of the self-assessment.

Periodic self-assessments are generally conducted by senior members of the internal audit activity, quality management staff with IPPF expertise (where a quality or quality management department exists), CIAs, or other competent audit professionals assigned elsewhere in the organization. Whenever possible, it is advantageous to include internal audit staff on a rotational basis in quality assessment activities. This provides a useful training opportunity for internal audit staff.

Appendix B contains further information on internal assessment processes including engagement supervision, working papers, and quality assurance file reviews.

“Quality means doing it right when no one is looking.”
– Henry Ford

External Assessments

External assessments must be conducted at least once every five years by an independent assessor or assessment team from outside the organization that is qualified in the practice of internal auditing as well as the quality assessment process.

There are two approaches to the conduct of external assessments:

- A full external assessment involves the use of a qualified, independent assessor or assessment team to conduct the full assessment.
- A self-assessment with independent (external) validation involves the use of a qualified, independent assessor or assessment team to conduct an independent validation of the self-assessment completed by the internal audit activity.

Further detail and guidance on external assessments can be found in IIA Practice Advisories:

- 1312-1: External Assessments.
- 1312-2: External Assessments: Self-Assessment with Independent Validation.

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.

Independence is critical to assuring an objective external assessment. Specific issues to consider have been highlighted in the following IIA Practice Advisories:

- 1312-3: Independence of the External Assessment Team in the Private Sector.
- 1312-4: Independence of the External Assessment Team in the Public Sector.

An external assessment may be undertaken by individuals or organizations with specific expertise in the external quality assessment process (such as an IIA Institute or a service provider) or through a peer review process.

Peer Review

Peer review arrangements can provide a cost-effective approach to meeting the requirements of Standard 1312, particularly for small internal audit activities. However, peer reviewers are required to meet the *independence* and *qualifications* criteria specified in the Standard. The following briefly outlines some of the key considerations (further details are available in the four previously identified practice advisories):

- All members of the assessment team who perform the external assessment are to be independent of that organization and its internal audit activity personnel. Real, potential, and perceived conflicts of interest should be considered.
- Individuals from within the same private sector organization but from another department or from a related organization (such as a parent organization,

an affiliate in a group of entities, or an entity with regular oversight) are not considered independent for purposes of conducting an external assessment.

- Within the public sector, individuals working in separate internal audit activities in a different entity within the same tier of government may be considered independent for purposes of conducting external assessments, as long as they do not report to the same CAE.
- Two organizations may not review each other mutually.

Reciprocal external assessment teaming arrangements between three or more organizations (e.g., within an industry or other affinity group, regional association, or government departments) may be structured in a manner that achieves the independence objective as described in the following diagram:



Diagram 2

Self-assessment with Independent Validation for Small Internal Audit Activities

Self-assessments with independent validation provide a valuable alternative for meeting the requirements of Standard 1312 for some internal audit activities. In particular, small internal audit activities and activities that have recently undergone a full external assessment may find these useful. While they have some limitations — in that the validator does not have the opportunity to provide as comprehensive an overview of the internal audit activity as an external assessor would for a full external assessment — they offer the following benefits:

- Validations of self-assessments should be less expensive than full external assessments.
- Self-assessments offer opportunities for staff development.
- Self-assessments may be able to be linked more closely to the periodic monitoring element of internal assessments.

The CAE considers the relative skills and experience of the team or assessor chosen to undertake the self-assessment. The assessor or team prepares a self-assessment report that includes judgement on conformance to the *Standards*, which is provided to the validator.

Linkage to the QAIP

A fully functioning QAIP includes ongoing monitoring to ensure quality on an audit-by-audit basis, and periodic self-assessment to ensure conformance to the Standards and other rules and regulations. With such a process in place, the external assessment should effectively become an opportunity to obtain new ideas from the assessor or assessment team on ways to improve overall internal audit quality, efficiency, and effectiveness. The focus can move from conformance to new and innovative ways to better service their stakeholders and provide meaningful results. There should not be any surprises since the periodic self-assessment should provide insight into conformance on an on-going basis.

Assessment Scale

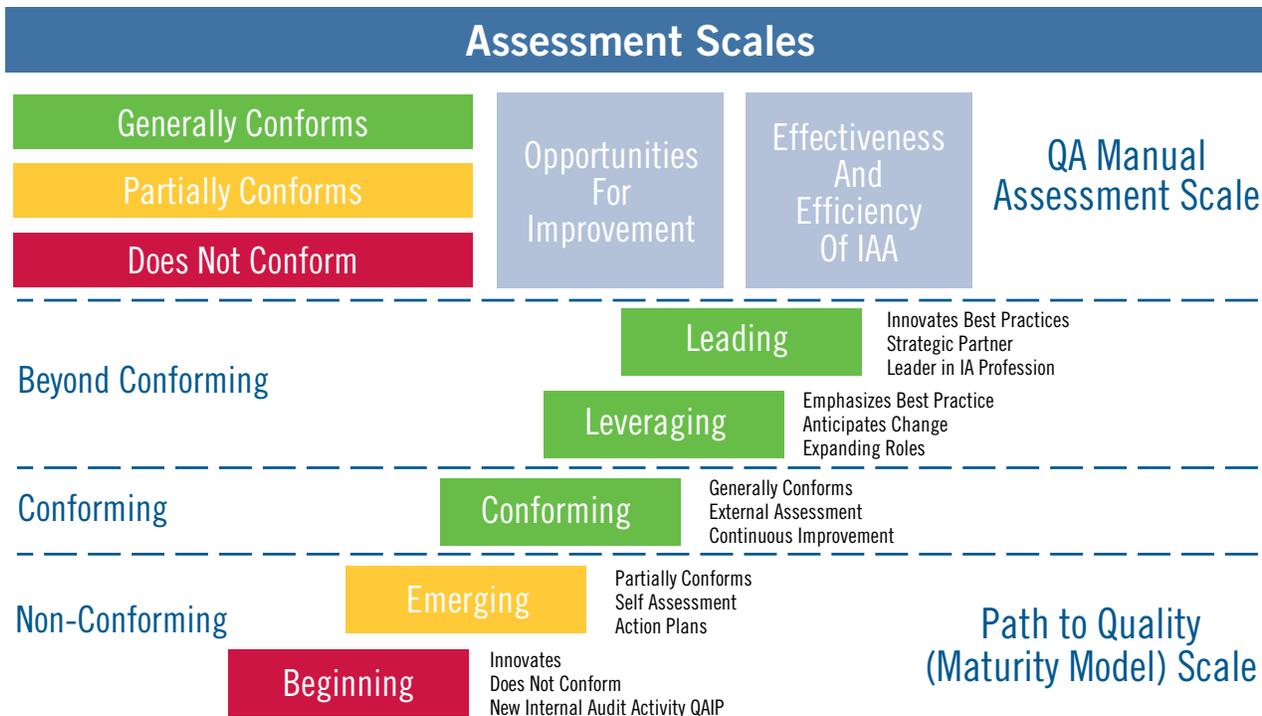
A QAIP should include a rating scale to assess the level of conformance of the internal audit activity with the *Standards*. Different options are available when deciding which assessment scale better suits particular needs. Some of those options include:

- IIA Quality Assessment Manual Scale:⁴ Does Not Conform/Partially Conforms/Generally Conforms.
- The IIA’s Assessment Scale — IIA Path to Quality:⁵ Introductory/Emerging/Established/Progressive/Advanced.

- IIA Capability Model for the Public Sector:⁶ Initial/Infrastructure/Integrated/Managed/Optimizing.
- DIIR (IIA–Germany) *Guideline for Conducting a Quality Assessment*:⁷ 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.

Diagram 3



The *Standards* do not require one particular assessment scale be used. Rather, the *Standards* require that the degree of conformance with the IPPF be assessed. The CAE or the external reviewer may choose the QA Manual Assessment Scale, the Path to Quality scale, IIA–Germany’s scale, or any other scale that assesses levels of conformance.

⁴ The Institute of Internal Auditors’ *Quality Assessment Manual for the Internal Audit Activity*, 6th Edition.

⁵ The Institute of Internal Auditors, *The Path to Quality — Maturity Model for Implementing a QA&IP*.

⁶ The Institute of Internal Auditors Research Foundation, *Internal Audit Capability Model (IA-CM) for the Public Sector*.

⁷ Deutsches Institut für Interne Revision e.V. (IIA–Germany), *Guidelines for Conducting a Quality Assessment (QA)*, September 2007.

Developing and Implementing a QAIP

Considerations in Developing a QAIP

There are numerous ways to develop a QAIP, and the design should be appropriate to the size, structure, and nature of the internal audit activity.

A key aspect to developing a QAIP is to determine:

- The role of internal audit management and staff in the quality process.
- The activities that are covered through ongoing monitoring, periodic self-assessment, or external assessments.
- The frequency of self-assessments and external assessments.
- The level of quality, or maturity, desired by the internal audit activity and expected by its stakeholders.

“Quality is never an accident; it is always the result of intelligent effort.”
– John Ruskin

Quality Responsibilities

The CAE is responsible for developing the QAIP and should lead by example by embedding quality into the internal audit activity. However, the entire internal audit activity is responsible for delivering quality. Internal auditors, as professionals, should be committed to delivering quality services.

Allocating specific responsibilities for developing, delivering, and monitoring the QAIP will vary for each internal audit activity. Regardless, these accountabilities should be articulated in audit planning documentation to allow for

the allocation of appropriate resources, as well as within the documented QAIP.

Responsibility for specific QAIP activities should take into account the qualifications and experience of staff. It is important that all staff is fully acquainted with the QAIP, and that specific staff responsible for activities, such as periodic self-assessments, have appropriate credibility and authority within the internal audit activity.

Continuous Improvement

The primary objective of a QAIP is to promote continuous improvement. This should occur in a planned, methodological manner. The *Deming Cycle*⁸, or *Plan, Do, Check, Act* Model, provides a structure that may be useful in establishing the QAIP.

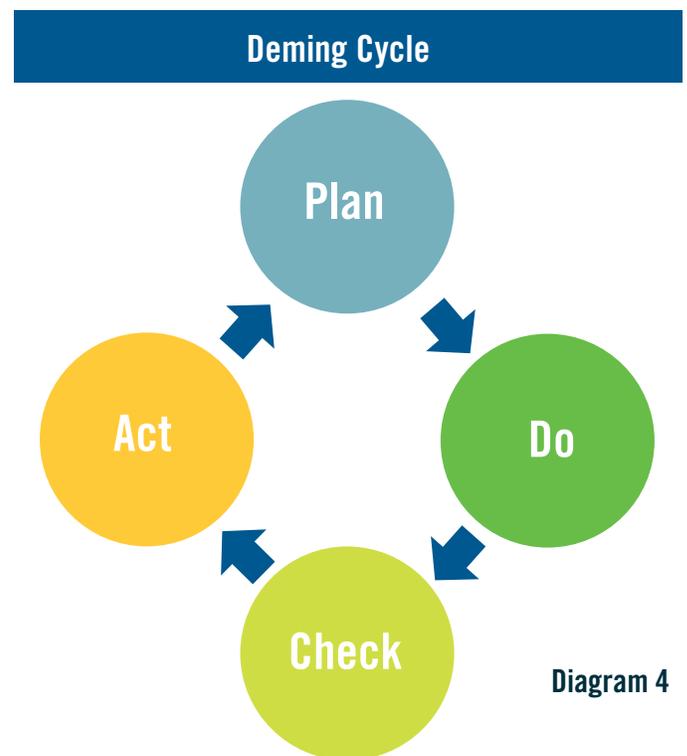


Diagram 4

To embed continuous improvement, one of the first tasks is to put into practice a performance measurement frame-

⁸ <http://www.balancedscorecard.org/TheDemingCycle/tabid/112/Default.aspx>

work. Regular reporting on the defined quality metrics should provide information about the status of those measures and any deviation from the standards set, thus allowing timely corrective action to be taken, if required. The measures adopted should be checked regularly to determine whether they are generating quality as planned (e.g., by carrying out ongoing monitoring or periodic self-assessments). These should assess existing processes and investigate the extent to which internal audit is complying with the set standards, as well as the possible existence of quality shortfalls. The defined quality criteria should be reviewed in terms of their appropriateness and continuing validity, and undergo further development as required.

“It is not enough to do your best. You must know what to do, and then do your best.”
– *Edwards Deming*

Use should be made of the knowledge and ideas of staff, whose suggestions for improvement should be actively sought. Suggestions and requests made by audit clients, or comparisons made with other comparable audit groups in other organizations, should be utilized. A mechanism to record the input of all auditors and stakeholders should be established to prevent ideas from being lost.

Using the Deming Cycle, the QAIP continuous improvement process contains four key elements that operate in an interactive manner:

- Formal documentation of standards and expected practices (PLAN).
- Development activities to define quality and build staff awareness of standards and expectations (DO).
- Various forms of assessment and review to measure product or process quality (CHECK).
- Undertaking improvement initiatives and documenting lessons learned (ACT).

Recommendations for improvement need to be captured and formalized. This summary action plan should be continuously updated with new recommendations, status of actions underway, and items completed.

Follow-up action should be taken to ensure appropriate improvements are implemented. This could occur through periodic self-assessments and should be reported to the board. All QAIP efforts should include appropriate and timely modification of resources, technology, processes, and procedures as indicated by monitoring and assessment activities.

Sample Approach — Program Sections Within an Internal Audit Activity

A standards-based approach to a QAIP would utilize the IPPF as the basis of the QAIP and identify how each of the *Standards* could be assessed using ongoing monitoring, periodic self-assessment, or external assessments. While this type of approach provides the internal audit activity and its stakeholders with assurance regarding the activity's conformance to the *Standards*, it is limited in terms of its ability to measure the performance of the internal audit activity against stakeholder and customer expectations. An alternative approach would be to base the QAIP around program sections or areas. This would allow for consideration of stakeholder expectations alongside requirements under the *Standards*.

The following diagram (Diagram 5), which structures the QAIP around the three specific activities identified in the QAIP framework, provides an example of a program-based approach. These three activities are governance, professional practice, and communication. The main elements in each activity, along with some key objectives of the assessment, have been described in Appendix C. Professional judgement should be used to determine the applicability of these elements for each particular organization, as well as to identify any additional elements.



Diagram 5

Assessment Methodology

For each of the elements, objectives and criteria should be identified along with the methodology or documentation, which should be examined to determine the level of conformance with the Definition of Internal Auditing, the Code of Ethics, the *Standards*, and stakeholder expectations. Once the documentation has been examined and an assessment of the objective completed, a rating should be determined using the assessment scale adopted by the organization. Any deficiency or recommendation should be documented at this point and appropriate action taken to implement any action plan.

An example of the methodology which could be used for the assessment of the elements, including the objective,

draft criteria, and preliminary methodology, has been provided in Appendix D. In addition, a sample template which could be used to document findings and observations of each element has been provided in Appendix E.

Reporting on the Quality Program

The results of ongoing monitoring must be communicated annually to the board and other appropriate stakeholders. Further, the results of any periodic self-assessments or external assessments, and the level of conformance with the *Standards*, must be reported to the board after their completion. The QAIP and the resulting action plan (sometimes referred to as a management action plan) should be made available to external assessors and be robust enough for external reliance.

“Program Section” Assessment Methodology

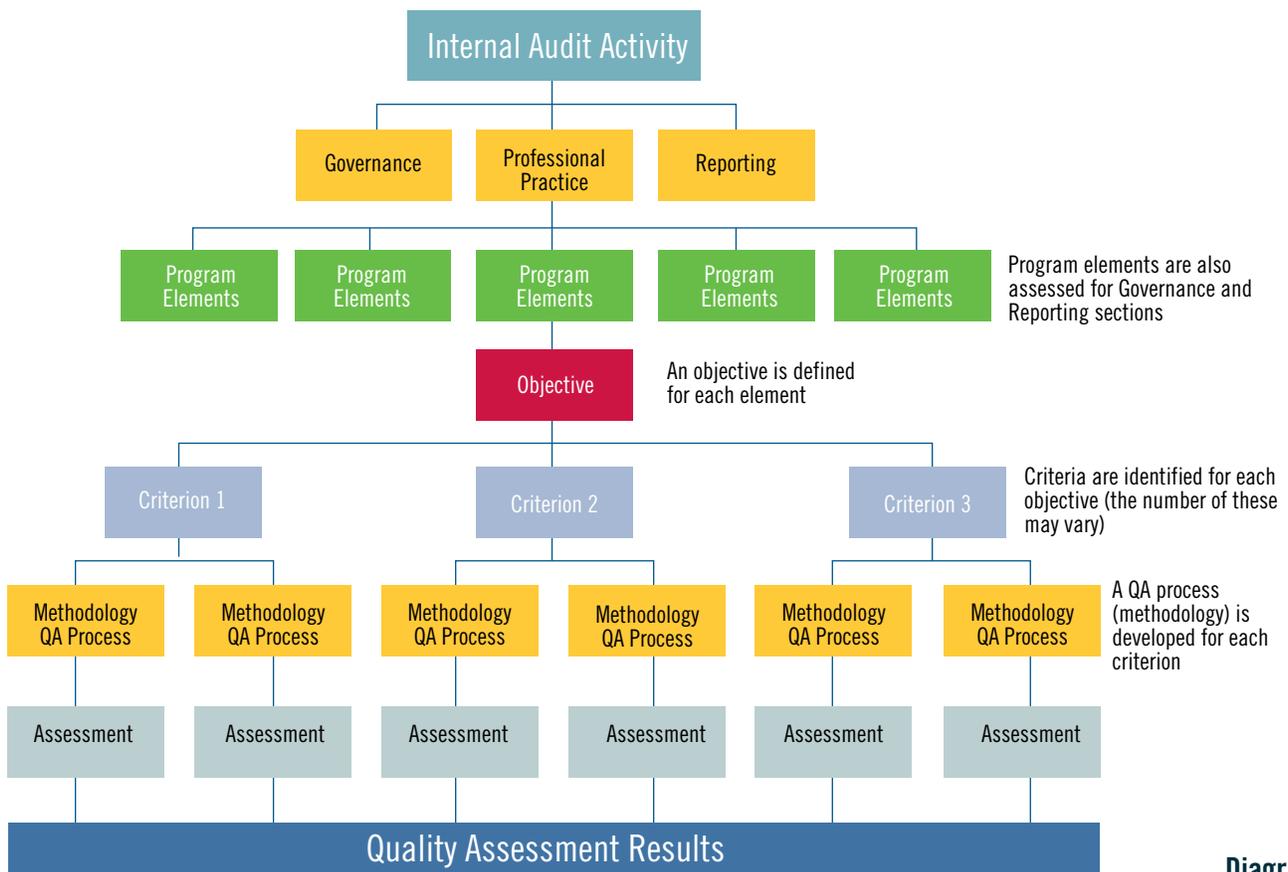


Diagram 6

QA results are captured back into continuous improvement and reported to stakeholders

Review of the QAIP

The QAIP also should be reviewed at least annually and individual sections of the program should be updated throughout the year as required. The inputs to the review include, but should not be limited to:

- Results from quality assessments.
- Customer (user) feedback.
- Status of resulting action plans.

- Follow-up actions from previous assessments and/or reviews.
- Other changes that could impact the quality management system.
- Recommendations for improvement.
- New and revised standards, policies, and procedures.

Appendix A:

Reference Material

The IIA's Practice Guide, *Assisting Small Internal Audit Activities in Implementing the International Standards for the Professional Practice of Internal Auditing*, April 2011.

<http://www.theiia.org/guidance/standards-and-guidance/ippf/practice-guides/assisting-small-internal-audit-activities-in-implementing-the-international-standards-for-the-professional-practice-of-internal-auditing/>

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<http://www.theiia.org/bookstore/product/internal-audit-capability-model-iacm-for-the-public-sector-1422.cfm>

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Appendix B:

Engagement Supervision, Working Papers, and Working Paper Quality Reviews

Engagement Supervision

Adequate supervision is the most fundamental element of any quality control process. Supervision is a process that begins with planning and continues throughout the performance and communication phases of the engagement.

Engagement supervision is intended to ensure that internal audit staff at all levels are appropriately supervised throughout audit engagements to monitor progress, assess quality, and provide coaching. The extent of supervision will depend on the experience and training of the individual auditor and the size of the internal audit activity. Particular care should be taken to ensure that all work by trainee auditors is subject to comprehensive supervision. The work of outside resources, such as consultants, also should be supervised and monitored. Supervision should include:

- Ensuring conformance with the Definition of Internal Auditing, the Code of Ethics, the *Standards*, and the organization's policies and procedures.
- Providing suitable instructions at the outset of an audit engagement.
- Approving audit objectives, scope, and work plans prior to the commencement of fieldwork.
- Ensuring audits are conducted as planned or that variations are approved.
- Ensuring that appropriate audit techniques are used.
- Ensuring that audit findings, conclusions, and recommendations are adequately supported by relevant, reliable, and sufficient evidence.
- Ensuring that appropriate working papers have been prepared and maintained.
- Ensuring that reports are accurate, objective, clear, concise, and timely.

- Ensuring that work is achieved within resource budgets (time and expense control), or that variations are approved.
- Ensuring that internal audit staff are trained and developed, and employee performance evaluations are completed.

Working Papers

Engagement working papers generally:

- Provide the principal support for engagement communications.
- Aid in the planning, performance, and review of engagements.
- Document whether the engagement objectives were achieved.
- Facilitate third-party reviews.
- Provide a basis for evaluating the internal audit activity's audit program.
- Provide support in circumstances such as discussions with management, fraud cases, and lawsuits.
- Aid in the professional development of internal audit staff.
- Demonstrate the internal audit activity's conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.

Working Paper Quality Reviews

Quality assurance at the engagement level is provided primarily by the audit team, through their exercise of due professional care during the audit engagement. Quality checks and management oversight should be carried out continually during the audit engagements to ensure conformance with the Definition of Internal Auditing, the Code of Ethics, the *Standards*, and internal policies and procedures.

Working paper quality reviews should be performed on selected audits as part of both the ongoing monitoring and periodic self-assessment processes. The objectives of the

review of completed files is to establish that sufficient, relevant work was performed to substantiate the findings contained in the internal audit reports, and that the information was effectively reported to the engagement client on a timely and factual basis. The reviewer also will verify that agreed upon procedures have been performed in an efficient and effective manner. The review may include, but is not limited to:

- Ensuring that the audit engagement, audit objectives, criteria, and approach were appropriate.
- Ensuring that conclusions and recommendations were reached based on relevant and sufficient evidence.
- Ensuring reports were accurate, objective, clear, concise, and timely.
- Ensuring that appropriate supervision was provided throughout the audit process and that responsibility was delegated to the appropriate individual.
- Reviewing the audit policies and procedures used for each engagement to ensure conformance with applicable planning, performance, and communication standards.

Working paper quality reviews should be conducted after the lead internal auditor and designated supervisor have completed their review of the working papers.

The same professional care should be taken with working paper quality reviews as with other internal audit efforts, including adequately planning the review, documenting findings, developing supportable recommendations, and soliciting engagement client comments.

Working paper quality reviews should be performed on a regular, ongoing basis. The review should consist of ensuring that the audit report is free of defects, as well as a detailed review of the audit comments and supporting working papers to certify the accuracy of statements made and the appropriateness of conclusions reached. The reviewer should be able to quickly find supporting evidence,

approvals, rationale for changes, and evidence of supervisory review.

Equally important, the reviewer should document evidence of the quality assurance review. Although time-consuming, these procedures bring credibility and confidence to those circumstances where internal auditors are called on to explain their work. The quality assurance reviewer should ensure that all schedules are footed and all appropriate sign-offs are present. The quality assurance reviewer should check to make sure that the entire report and working papers are in conformance with the *Standards*. The reviewer is encouraged to make suggestions that will improve the quality of the audit report and working papers without significantly increasing time consumption. This could include action plans and links back to the Continuous Improvement element of the Deming Cycle.

In addition to the internal working paper quality reviews, a sample of working paper files should be independently reviewed as part of the external quality assessment.

Considerations for Small Internal Audit Activities

Working in a small internal audit activity presents specific challenges with regards to engagement supervision and working paper reviews. These challenges are further compounded in a sole auditor activity.

In sole auditor activities, the internal auditor may seek assistance from other parts of the organization to undertake quality assurance activities, provided this does not impact the independence of internal audit. The internal auditor also may look to peers in other organizations for support. Using checklists can assist in providing assurance over audit quality.

The IIA Practice Guide, *Assisting Small Internal Audit Activities in Implementing the International Standards for the Professional Practice of Internal Auditing*, provides further guidance regarding quality assurance in small audit activities.

Appendix C: QAIP Components

Section I: Governance

The main elements, along with some of the key objectives, to be assessed in the Governance section include:

- Internal Audit Charter:
 - Internal audit’s purpose, authority, and responsibility are formally defined in a charter, consistent with the Definition of Internal Auditing, Code of Ethics, and the *Standards*.
 - The internal audit strategy is aligned with the organizational strategy.
 - The internal audit activity’s charter provides assurance that the internal audit activity will add value and improve the organization’s operations.
 - The internal audit activity’s charter, mission statement, goals, and similar documents are implemented in an effective manner.
- International Professional Practices Framework (IPPF):
 - The internal audit activity is in conformance with the Definition of Internal Auditing, Code of Ethics, and the *Standards*.
- Legislation:
 - The internal audit activity is in compliance with other applicable laws, regulations, or policies.
- Independence and Objectivity:
 - The internal audit activity’s structure, objectivity, roles and responsibilities, and key governance processes are appropriate for managing the function.
 - The internal audit activity is independent and objective in the performance of its work.

- The organizational status of the internal audit activity is sufficient to permit accomplishment of the objectives.
- Broader organizational governance arrangements provide assurance regarding auditor independence and objectivity.
- Risk Impacting the Internal Audit Activity:
 - Risks impacting the internal audit activity have been identified and managed.
- Resourcing:
 - The appropriate level of financial and IT resources are available to the internal audit activity to enable it to achieve its objectives in an efficient and effective manner.

Section II: Professional Practice

The main elements, along with some of the key objectives, to be assessed in the Professional Practice section include:

- Roles and Responsibilities:
 - Roles and responsibilities of staff within the internal audit activity are formally documented.
 - The internal audit activity has fulfilled its responsibilities in regards to governance, risk management, and control.
- Risk-based Audit Planning:
 - The audit planning process is aligned with the organization’s strategic objectives.
 - The perspectives of senior management and the board are considered in audit planning.
 - The process of audit planning ensures that all activities of the organization are considered for audit, subjected to a risk assessment, ranked in order of priority, and that appropriate audit objectives for each audit selected have been established. This may include documentation of an audit universe.

- An effective annual planning process exists including appropriate processes for the reporting of progress toward achieving the established plan.
- Coordination with Other Assurance Providers:
 - Internal audit activities are coordinated with those of other assurance providers.
- Audit Engagement Planning:
 - Risks relevant to the activity under review are assessed. The engagement objectives reflect the results of the assessment.
 - Appropriate resources are allocated for audit work to identify significant issues.
 - Work programs to achieve the engagement objectives are developed.
- Performing the Engagement:
 - Engagement processes, including identifying information, analysis, and evaluation, ensure that the steps in the audit program developed at the end of the planning phase are completed in an effective and efficient manner.
 - Audit techniques, including the use of internal audit automation and computer assisted auditing techniques, are used as appropriate to provide assurance that work is performed efficiently and effectively.
 - The evidence gathered substantiates the audit findings and establishes the cause and effect of issues identified as needing improvement.
 - Information acquired when the audit is conducted is described and retained in working papers to clearly document the audit process and identify findings.
 - Audit records are appropriately maintained.
 - Audits are appropriately supervised for professional development and to provide assurance that due professional care is applied.

- Proficiency and Due Professional Care:
 - The internal audit activity collectively possesses or sources the knowledge, skills, and other competencies to perform its responsibilities.
 - Internal auditors display due professional care in the performance of their responsibilities.
 - Continuing professional development is provided to allow internal auditors to enhance their knowledge, skills, and other competencies.
 - Management and leadership development is embedded within the internal audit activity.
- Quality Assurance:
 - A QAIP is in place that covers all aspects of the internal audit activity and the QAIP effectiveness is continuously monitored.
 - Internal audit has processes in place to track and record progress toward established objectives, plans, and budgeted resources.

Section III: Communication

The main elements, along with some of the key objectives, to be assessed in the Communication section include:

- Audit Engagement Reports:
 - The final report presents the purpose, scope, and significant findings, including the causes and effects, conclusions, recommendations, and the engagement client's action plans to address the issues outlined.
 - An effective process is in place to ensure that the audit results are presented to the appropriate level of management timely for discussion and response.
 - Reports are provided to and/or are reviewed by senior management and the board.
 - The form and content of audit communications meet stakeholder expectations.

- The phrase “conducted in accordance with the *Standards*” is utilized only under appropriate circumstances.
- Follow-up Phase:
 - An appropriate follow-up process to ensure that management actions have been effectively implemented has been established and is being maintained.
- Stakeholder Communications:
 - The internal audit activity’s communication practices inform the board and appropriate stakeholders of work undertaken.
 - A performance management and measurement process is in place to ensure that the effectiveness of the internal audit activity is optimized and recognized.
 - Engagement client satisfaction with the audit process is measured by the internal audit activity, including the level of professionalism demonstrated by the internal auditors and opportunities for improvement.
 - The extent of satisfaction of other stakeholders with the internal audit process and products is measured (this may include a self-assessment questionnaire and a satisfaction survey for engagement clients).
 - The role and services offered by internal audit are understood by stakeholders and considered to be value-added.

Appendix D: Sample Element Self-assessment Methodology

Example Section II — Professional Practice

ELEMENT: RISK-BASED AUDIT PLANNING		
Objective: An effective annual planning process exists including appropriate processes for the reporting of progress toward the established plan. (Refer to objective on page 22.)		
DRAFT CRITERIA	PRELIMINARY METHODOLOGY	IIA STANDARD
<p>A process is in place and is used to develop the annual internal audit plan to verify that:</p> <ul style="list-style-type: none"> All organizational components, programs, and activities were considered. Senior management was involved in the process. The plan was prepared timely and distributed to the appropriate levels of management. 	<p>In consultation with internal audit, determine the audit plan development process used (obtain any process documentation available).</p> <p>Review any minutes or follow-up correspondence/confirmations of planning process meetings and verify:</p> <ul style="list-style-type: none"> Attendance by all parties to the process. Input was requested from all stakeholders. The plan from the previous fiscal year was reviewed to identify any engagements not yet completed for consideration for the current year's plan. A formal risk analysis and assessment of all suggested projects was performed and documented. Organizational components, programs, and activities were considered. A draft annual plan was presented to senior management and the board and subsequently approved. The distribution list for the draft annual plan as well as the approved audit plan. 	2010

Note: Tool 19 in the *Quality Manual* may be useful as a source of potential criteria.

ELEMENT: RISK-BASED AUDIT PLANNING		
DRAFT CRITERIA	PRELIMINARY METHODOLOGY	IIA STANDARD
<p>A process for selection of engagements to be conducted is documented and includes criteria such as:</p> <ul style="list-style-type: none"> • Past audit coverage and results. • Materiality. • Significance to management. • Risk (based on a standardized methodology). • Auditability. • Engagements not completed from the previous year’s plan. • Organizational priorities. • Opportunities for improvement. • Legislative or other mandated obligations. 	<p>Review last year’s plan and results.</p> <p>Review annual report on progress made from previous fiscal year.</p> <p>Review documented risk analysis and assessment to determine criteria applied.</p> <p>Confirm that justification was documented for engagements cancelled or deferred that were either brought forward from last year’s plan or were proposed in the current year process.</p> <p>Review approved annual plan to determine engagements to be conducted.</p> <p>Review the process used to ensure that a formal risk analysis and assessment of all suggested projects was performed and documented.</p>	<p>2010</p> <p>2050</p>
<p>For each audit selected for the plan, the plan provides:</p> <ul style="list-style-type: none"> • A clear indication of the objective and scope. • An estimate of resource requirements, in terms of direct time, to conduct the engagements. • The number of auditors and the skills required. 	<p>Review the annual plan to confirm that all required details have been incorporated.</p> <p>Compare the details approved to the relevant details on a sample of audit planning memorandums, and document any variances.</p> <p>Determine that variances were accounted for and approved.</p>	<p>2030</p>
<p>The process for tracking the progress made in support of the annual plan results in reports that:</p> <ul style="list-style-type: none"> • Provide an objective statement describing each engagement, and indicate the status by showing key deliverable dates, designated contacts, as well as relevant narrative comments. • Are timely, accurate, and disseminated to the appropriate levels of management. 	<p>Through interviews, determine and document the process for reporting on progress against the annual plan.</p> <p>Compare monthly status reports to the annual plan.</p> <p>Review documentation on presentations made to senior management and the board.</p> <p>Assess effectiveness of the process in achieving the criteria addressed.</p>	<p>2020</p> <p>2060</p>
<p>Reports prepared on the results achieved in support of the annual plan are appropriately used for decision making, and resources are appropriately utilized.</p>	<p>Interview members of senior management and the board to determine the utilization of monthly status reports content.</p> <p>Review minutes or emails regarding any pertinent meetings.</p>	<p>2020</p> <p>2060</p>

Appendix E: Sample Template for Performing Self-assessments

TITLE	INSTRUCTIONS/DESCRIPTION	ASSESSMENT/REMARKS
QAIP Objective	<p>The objectives as identified in each component of the QAIP should be listed here. Additional objectives also may be added as necessary.</p> <p><i>For example (using Appendix D):</i></p> <p><i>An effective annual planning process exists including appropriate processes for the reporting of progress toward the established plan.</i></p>	
QAIP Criteria	<p>The audit criteria from the QAIP for each objective should be listed here. Additional criteria also may be added. Criteria should be clear, relevant, reliable, and complete. Ensure that they are reasonable and attainable and that they provide a basis for developing observations and conclusions.</p> <p><i>For example (using Appendix D):</i></p> <p><i>A process is in place and is used to develop the annual internal audit plan to verify that:</i></p> <ul style="list-style-type: none"> • <i>All organizational components, programs, and activities were considered.</i> • <i>Senior management was fully involved in the process.</i> • <i>The plan was prepared timely and distributed to the appropriate levels of management.</i> 	
Quality Assessment Procedure/ Methodology	<p>Quality assessment procedures or methodologies should be developed for each QAIP criteria. These methodologies are the procedures that an assessor should perform to verify whether criteria are met.</p>	

TITLE	INSTRUCTIONS/DESCRIPTION	ASSESSMENT/REMARKS
Control Point	<p>By establishing a control point, an assessor would be able to know which of these criteria or procedures are more important than the others, and prioritize the criteria, quality assessment procedures, and results.</p> <p>Using the list of criteria above, identify which of the criterion are critical for the achievement of this objective.</p> <p><i>For example:</i></p> <p><i>It is critical that all organizational components, programs and activities have been considered in the development of a risk-based audit plan, otherwise the plan may be inaccurate as a result of not considering all potential risk elements. However, although important, even if the plan was not prepared on a timely basis and was not distributed to the appropriate levels of management once approved, the organization could still have a reasonably effective annual planning process in place.</i></p>	
Working Paper File Reference	<p>It is necessary to keep track of the working paper file references when performing the quality assessment on the internal audit activity. By doing so, the assessor would be able to ensure that the working papers file is appropriately maintained and administered in support of the audit observations and findings.</p>	
Criteria Met	<p>By performing the quality assessment procedures identified, the assessor will be able to determine if the criteria have been met. The assessor should simply qualify the response by using Yes, No, or Partially.</p>	
Assessor's Comments	<p>An assessor should provide comments for any unmet or partially met criteria.</p>	
Assessment/Rating	<p>Provide an assessment of the objective/criteria based on the assessment scale adopted by the organization.</p>	

Appendix F:

Definition of Internal Auditing

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

Appendix G:

Code of Ethics

Principles

Internal auditors are expected to apply and uphold the following principles:

1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

2. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

4. Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

Rules of Conduct

1. Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.

- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency

Internal auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

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Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association with global headquarters in Altamonte Springs, Fla., USA. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator.

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