

Chapter 4

INTERNAL QUALITY ASSESSMENT

Overview

Internal QAs are a critical element in the overall quality assurance and improvement program of an IA activity. The development and implementation of effective ongoing internal and external assessments provide the IA activity with a foundation for monitoring and evaluating its quality program. The purpose of a quality program is to provide reasonable assurance that the IA activity's work conforms to The IIA's Standards, the Code of Ethics, the IA activity's charter, and other applicable standards. Reasonable assurance serves the needs of several possible constituencies, including the CAE, senior management, external auditors, the board, and regulatory agencies. (Source: Practice Advisory 1310-1: Requirements of the Quality Assurance and Improvement Program.)

Examples of other applicable standards that should be considered in assessing the performance of the IA activity include:

1. The IA activity's objectives, policies, and procedures.
2. The organization's enterprise risk management, governance, and control processes.
3. Applicable laws and regulations.
4. Government, industry, or other relevant standards.

Other performance elements and potential measurement criteria include:

1. The IA activity's methods for identifying its risk universe and its overall risk assessment/planning process.
2. Engagement planning documents, particularly those submitted to senior management and the board.
3. The plan of organization, statements of job requirements, position descriptions, and professional development plans of the IA activity.
4. Continuous improvement activities and adoption of successful practices.

As outlined in the *Standards*, internal assessments must include:

1. Ongoing monitoring of the performance of the internal audit activity; and
2. Periodic reviews performed through self-assessment or by other persons within the organization with knowledge of internal audit practices.

Ongoing reviews of the performance of the IA activity, mentioned above, generally relate to the element of supervision in the context of the IA activity's quality program. The quality, level, and depth of supervision in the IA activity can be a challenging element to evaluate due to the dynamic, and to a great extent, intangible nature of supervision. However, adequate supervision is the most fundamental element of a quality assurance program and provides the basis on which internal and external assessments can be built. (Source: Practice Advisory 1311-1: Internal Assessments.) The nature and responsibility for supervision are set forth in Section 2340 of the Standards and related guidance.

The core theme of Chapter 4 focuses primarily on the second point above (i.e., periodic reviews performed through self-assessment). For purposes of this chapter, the term "internal assessments" shall refer to the IA activity outlined in the second point above, unless specified otherwise.

The Decision to Perform a Formal Internal Assessment

Formal internal assessments must be performed periodically (i.e., as part of a regular ongoing program of the IA activity). Internal assessments include consideration of the following objectives:

1. Determine whether or not the IA activity's actions are consistent with its charter and the expectations of the board/audit committee and senior management.
2. Provide insights into the level of audit effectiveness and efficiency. This should include evaluating the IA activity at a high level of efficiency and effectiveness, which are essential to achieving quality performance.
3. Determine whether or not assurance and consulting services apply successful practices and add value to the organization's business processes.
4. Provide recommendations for improving the IA activity.
5. Demonstrate the degree of the IA activity's conformity to the Definition of Internal Auditing, Code of Ethics and the *Standards*.
6. Prepare the IA activity for an external review.

The Review Team

Teams should be comprised of individuals who are highly qualified in internal auditing and who can be objective in their assessments. It generally is not feasible for an internal assessment team to be in-

dependent of the IA activity. But keep in mind that staff members may find it difficult to objectively evaluate colleagues with whom they have worked directly. An evaluation of policies and procedures can be equally difficult, particularly if staff members have been involved in the development of such policies and procedures. For the duration of their assignment, the internal assessment team should report directly to the CAE, who should emphasize to the team the need for an independent and objective frame of mind to the greatest extent practicable.

Industry and organizational knowledge is an essential attribute of internal assessment team members, as shown by IIA research studies and external QA reviews. Team members should have an historical perspective of both the industry and the organization. In this regard, perhaps no better team members exist than those presently on staff or who have recently moved from the IA activity elsewhere in the organization.

The professional proficiency of the internal review team is of the utmost importance to the CAE. Thus, if possible, team members should have managerial experience as well as demonstrated judgment and analytical skills. The following criteria may be used in the selection process:

1. Level of objectivity.
2. Knowledge of the *Standards*.
3. Internal auditing management skills.
4. Technical knowledge (financial, operational, management, and information technology).
5. Professional certification.
6. Industry knowledge.
7. Knowledge of the organization.
8. Availability and interest in the internal assessment project.
9. Human relations skills.
10. Communications skills.
11. Ability to provide constructive analysis, comments, and recommendations for improvement.

The number of team members and the amount of time required for internal assessments will be dependent on the size of the IA activity, the desired completion date of the review, the scope of work, and other relevant factors. These assessments generally should be performed in the same manner as any other engagement in terms of planning and execution of the program. Larger activities may have a person designated as a manager of quality assurance who will conduct or supervise the internal assessments. In smaller activities, flexibility will be required in developing and implementing an internal assessment program due to inherent staffing size limitations and considerations of staff qualifications and availability.

Internal assessment team members should be rotated over time. This will allow fresh perspectives to be brought to the process and provide positive “quality training and awareness” to those who participate in these ongoing projects.

Agreement should be reached early in the assignment as to how the findings and recommendations will be recorded and reported and on the format of the final report. A balanced reporting style that includes a discussion of positive findings as well as constructive issues and recommendations is suggested. This will serve as a vehicle wherein both strengths and recommendations for improvement are presented.

The CAE Questionnaire

The specific objectives to be covered in the internal assessment may be determined by direct engagement of the CAE using the CAE questionnaire in Tool 3 for guidance. The team leader should consider any/all specific and general objectives when developing procedures for the assessment and when making the overall evaluation. Objectives may be similar to those of an external assessment. For example:

1. Assess the efficiency and effectiveness of the IA activity in light of: (a) its charter; (b) the future direction and goals of the organization; (c) expectations of the board (audit committee); senior management, and the CAE; (d) its current needs and opportunities; and (e) risks of performing at less than an effective level.
2. Identify opportunities and offer ideas and counsel to the CAE and staff for improving their performance and that of the IA activity. By implementing selected “successful practices,” the IA activity will add value to management and the board and promote the image and credibility of the IA activity within the organization.
3. Provide an opinion as to the degree of the IA activity’s conformity to the *Standards*.

The scope and program for the internal assessment should be modified to take into account any ongoing internal quality assessment activities. Examples of this might include a review by one manager of another manager’s engagement with the results reported to the CAE, internal surveys, or assurance/consulting customer evaluations that are received on a regular basis.

Note: The CAE questionnaire may include questions that will not be applicable to every internal assessment.

Self-assessment (Optional)

Because the internal assessment team is generally selected from the IA activity’s staff, the orientation process is simpler than for an external assessment team. The internal assessment team will already be familiar with the organization, the policies and procedures of the organization, and the IA activity, and should have a thorough understanding of the IA activity’s charter. Nevertheless, completing portions of Tool 2, Quality Assessment Advanced Preparation, normally prepared in full for external assessments, may be appropriate in place of, or to supplement, the CAE questionnaire.

Preparation of a self-assessment may highlight additional areas for review as well as provide good up-front survey material and documentation. A more scaled down or targeted version of the self-assessment generally will be appropriate for internal assessments, if it is used at all. A self-assessment can also prove to be an effective preparatory tool for potential upcoming external assessments or possibly even regulatory examinations (if applicable), as only updates to the internal assessment self-assessment should be needed for those external purposes.

Surveys of Audit Customers and Staff

An important aspect of a quality assessment deals with operating management's perception of the IA activity's performance. Questionnaires from audit management are sometimes used to solicit management feedback at the conclusion of an audit. If these are routinely sent after each audit, a review of the responses by the assessment team may provide an adequate survey of the audit customers' perceptions regarding the IA activity's performance. The internal assessment may also evaluate the effectiveness of current processes for addressing ongoing customer survey feedback (particularly any potential critical feedback or suggestions).

If questionnaires are not routinely sent to assurance and consulting customers, the assessment team should send a customer survey (Tool 4, Appendix A, or similar questionnaire) to operating and support unit managers who have been audited or for whom consulting services have been performed during the past 12 months. Managers who have responded to assurance and consulting recommendations should be included in the customer survey group. The contents of the questionnaire and the collection process should be reviewed with the CAE before distributing the surveys out.

The survey of audit customers should be one of the early steps in the internal assessment, as the customers will need time to complete and return the survey questionnaire. Responses may highlight areas for further fieldwork or follow-up interviews during the internal assessment.

Review Activities

Chapter 2, "External Quality Assessment: A Business-focused Quality Assessment," explains the entire QA process and procedures. This process and these procedures may also be used, or modified, for internal assessments. The procedures provide program guidance, with references to the applicable Tools, for determining whether the IA activity has implemented the assessment objectives mentioned on page 30. These procedures may be modified by the assessment team to adapt them to the unique circumstances or the particular objectives of the internal review. See Chapter 5, "Overview of Tools for Quality Assessment," for additional guidance.

Review of audit workpapers is a core element of the overall internal assessment. A diverse selection/sample of various audit types (e.g., financial, operational, IT, regulatory/compliance) and consulting projects/activities (e.g., systems development, system conversions, business process redesign) should be included in the internal assessment program, as deemed appropriate. In addition, any other

major ongoing services to the organization or selected internal operating processes of the IA activity may be targeted for review by the assessment team, based on the objectives of the overall internal assessment program. The internal assessment team generally should avoid heavy concentration of audits conducted by the same team or manager (unless specific circumstances dictate otherwise). A well-balanced sample selection and workpaper/documentation review process are key for avoiding any appearance of potential bias with respect to the structuring of the internal assessment program.

Interviews

Interviews with members of the board may involve the chair and other members of the audit committee. Interviews with executive management involve the most senior executive, the direct reports of the most senior executive, and may include selected other senior operating and support unit managers. These interviews elicit views on the value of internal audits, management's expectations, the professionalism of staff, and areas for improving the IA activity. While it is best to conduct the interviews at the beginning of the assessment, they may continue throughout the assessment to accommodate the busy schedules of senior management.

Additional guidance concerning the interview process (including samples of interview forms to consider for usage) can be found in the Interview Guides (Tools 6–11, Appendix B).

Evaluation

Tool 19, Standards Compliance Evaluation Summary, provides guidance to the internal assessment team with respect to identifying important issues and arriving at an opinion of the degree of the IA activity's conformance to the Standards.

Reporting and Follow-up

As mentioned earlier in this chapter, it is essential for the assessment team and the CAE to agree on the reporting medium and format at the beginning of the assessment. This reinforces the independence and objectivity of the team. Additional guidance is provided in Reference I (Practice Advisories) and Tools 20 and 21, Sample Reports, to aid in this process.

After the internal assessment team prepares a final written report, the CAE is to document in writing a response/action plan and implementation timetable for each recommendation. The CAE may involve the IA activity's management team and/or staff in the response/action plan process.

The response should: (a) agree fully with each recommendation; (b) agree but propose an alternative method of correction; or (c) document the reasons why no corrective action is to be taken. The CAE's response should be reviewed for adequacy by the internal assessment team. The team should seek the counsel of the CAE in any instances where clarification of the responses may be required.

If the final report is sent outside the IA activity, the CAE should also send a copy of the IA activity's response and implementation plan. It is required by the Standards, the CAE must report the results of the internal assessment to senior management and the board (audit committee).

At least annually, the CAE must review the status of each significant area covered by the internal assessment, along with the status of major recommendations with ongoing applicability. The results of these periodic reviews must be documented and reported to those who received the internal review report.

Sharing the final internal assessment report and the CAE's written response with the audit staff can be a valuable training tool.

Some recommendations may be of a long-term or ongoing nature. Consequently, it may be helpful to consider previous internal and external assessment recommendations and corrective actions when setting objectives and goals during the annual and specific internal audit planning or goal-setting processes.

The first step in subsequent internal assessments should be to determine whether previous recommendations from either internal or external assessments have been resolved satisfactorily. This finding is to be stated in the final internal assessment report.