

Quality Assessment of the Internal Audit Activity

July 2013

Overview

An enhanced focus on organizational responsibility and accountability has ensued in the requirement for quality and improvement methods to be incorporated into the internal audit process. The International Internal Audit Standards Board (IIASB) updated, effective January 1, 2013, 18 revisions to the International Standards for the Professional Practice of Internal Auditing (*Standards*) following consideration and approval by the International Professional Practice Framework Oversight Council (IPPFOC). In this edition of *Forefront*®, we'll focus on Standard 1312 – *External Assessments*:

Per the Institute of Internal Auditors' (the IIA), International Professional Practices Framework (IPPF) Standard 1312¹ states “External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The Chief Audit Executive (CAE) must discuss with the Board:

- The form and frequency of external assessment; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.”



The important update was adding the following interpretation: “External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation”.

Quality Assurance and Improvement Program (QAIP)

The Internal Audit Activity has become a pivotal element of an organization. Proactive measures must be entrenched into all aspects of the internal audit activity to ensure optimal effectiveness.

A QAIP provides critical information about how an organization's internal audit activity conforms to the *Standards* and identifies improvements to render the function more effective and efficient.

The QAIP outlines a directed road map to add value to the IA activity and consequently to the organization. Among other items, a QAIP clearly validates to the Board and stakeholders the organization's dedication to risk and control assurance.

Full External Assessment or Self-Assessment with Independent External Validation?

Practice Advisory 1312-1.4 grants organizations the option of choosing between a full external assessment or engaging a qualified, independent assessor or assessment team from outside the organization to independently validate the internal audit activity's self-assessment process. An independent validation of the internal self-assessment will be more economical than a full external assessment and contains an inherent advantage: it will reinforce the importance of quality and places constant ownership of the said process with the internal audit activity.

¹ International Professional Practices Framework (IPPF) © 2013 Edition. <https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx>

Conflict of Interest

Practice Advisory 1312-1.5 outlines instances where potential conflict of interest for QAIP engagements may arise. Highlighted below are the main points to consider.

Any real or apparent conflict of interest of firms that provide:

- The external audit of financial statements.
- Significant consulting services in the areas of governance, risk management, financial reporting, internal control and other related areas.
- Assistance to the internal audit activity. The significance and amount of work performed by the professional service provider is to be considered in the deliberation.

Since the main goal of having a QAIP is to provide reasonable assurance to key stakeholders that an organization's internal audit activity is in compliance with the *Standards*, it is important to ensure the independence and qualifications of the QAIP service provider.

Conclusion

A QAIP process can be an enriching experience for the internal audit activity and organization, as a whole. The review should be forward-looking and improvement-oriented, rather than punitive. The assessment should focus on, among others:

- The efficiency and effectiveness of the internal audit activity;
- The method followed for the annual risk assessment and finalization of the audit plan;
- The perception of the internal audit activity by their clients;
- The identification of ways to enhance the activity's policies and procedures;
- The evaluation of the activity's structure, staffing and approach.

Contact Us:

Raoul Ménès, MBA, CPA, CMA, CMC, CRMA, CCSA, C. Adm.
Principal
(855) 636-3701
raoul@menescg.com

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