



Performing a Quality Assessment Review

44. Should internal audit conduct a quality assessment review (QAR) periodically?

The IIA *Standards* require a QAR once every five years. The relevant standard states that “External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.”

Many internal audit departments already comply with this standard and also perform their own internal assessments on a more frequent basis. In addition, many internal audit functions seek to go beyond mere compliance with The IIA *Standards* and include as part of the scope of their QARs a “best practices” component to foster continuous improvement within the function.

Other internal audit functions realize that for whatever reason (new company business models, risks, regulations, new products and services issues, for example), the function needs to change substantially from its current structure. In these cases, internal audit functions and their audit committees take a “transformation” approach and typically work with outside advisors to redirect and reorganize the function to meet current reality.

Also, the audit committee should seek the viewpoint of the company’s external auditor on the performance, competency and objectivity of its internal audit function, including the degree of coordination with the external audit firm and the degree of reliance the firm places on internal audit’s work. The relevant standard also indicates:

A qualified reviewer or review team consists of individuals who are competent in the professional practice of internal auditing and the external assessment process. The evaluation of the competency of the reviewer and review team is a judgment that considers the professional internal audit experience and professional credentials of the individuals selected to perform the review. The evaluation of qualifications also considers the size and complexity of the organizations that the reviewers have been associated with in relation to the organization for which the internal audit activity is being assessed, as well as the need for particular sector, industry, or technical knowledge.

An independent reviewer or review team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.

Whatever exact form the review takes, the audit committee should be apprised of the process and the results of the review, as well as the agreed-upon actions resulting from this effort.

45. How does completing a quality assessment review strengthen the value internal audit brings to the organization?

The quality assessment review process should assess the internal audit function's current state of performance, evaluate the desired state and future needs, identify gaps, provide recommendations to narrow those gaps, and establish a basis to measure future improvement. Completing a quality assessment review provides internal audit with a direct measurement of the effectiveness of its efforts, as well as assurance that internal audit is in conformance with The IIA *Standards* and *Code of Ethics*. This process represents an opportunity for internal audit departments to learn whether they are going beyond the basics to become valued advisors within their companies.

In addition, the scope of many external quality assessments provides the opportunity to compare the reviewed function to current leading practices and identify gaps in performance with these leading practices.

46. What types of assessments are available to comply with quality assessment review requirements?

When satisfying the quality assessment requirement laid out in The IIA *Standards*, CAEs have two options: an *external quality assessment* or a *self-assessment with external validation*. Both options are acceptable according to The IIA *Standards*. The difference between these two alternatives lies primarily in *who* does the work. Both types of assessments review the internal audit function for efficiency and effectiveness, conformity with the *Standards* and stakeholder expectations.

In an *external quality assessment*, the work is performed by an independent reviewer or review team from outside the company. According to The IIA, an external quality assessment should review the following elements of the internal audit activity:

- Compliance with The IIA *Standards*, The IIA's *Code of Ethics* and the internal audit activity's charter, plans, policies, procedures, practices, and applicable legislative and regulatory requirements
- Expectations of the internal audit activity expressed by the board, executive management and operational managers
- Integration of the internal audit activity into the organization's governance process, including the attendant relationships between and among the key groups involved in that process
- Tools and techniques employed by the internal audit activity
- Mix of knowledge, experience and disciplines within the staff, including staff focus on process improvement
- Determination as to whether or not the activity adds value and improves the organization's operations

In the *self-assessment with external validation* option, the basic review work is done by the internal audit function and then an independent team, external to the organization, validates the work performed by internal audit. When considering this option, the internal department should weigh the benefits and savings of this internal approach against the opportunity cost. Would the department need to alter the audit plan schedule to accommodate the self-assessment?

For internal audit functions with limited resources, the self-assessment with external validation option can help them comply by limiting the scope of the review. According to The IIA, this option should include the following features:

- A comprehensive and fully documented self-assessment process, which should emulate the external assessment process, at least with respect to evaluation of compliance with The IIA *Standards*.
- An independent on-site validation by a qualified reviewer.
- Economical time and resource requirements with the primary focus on compliance with The IIA *Standards*. Attention to other areas such as benchmarking, review and consultation as to employment of best practices, and interviews with senior and operating management may be reduced or omitted.
- Otherwise, the same requirements and criteria as set forth in Practice Advisory 1312-1 for external quality assessments would apply for:
 - General considerations
 - Qualifications of the independent validator (external reviewer)
 - Independence, integrity and objectivity, competence, approval by management and the board, and scope (except for areas such as employment of tools, techniques, other best practices, career development and value-adding activities)
 - Communication of results (including remedial actions and their accomplishment)

Variation to the actual scope of each option can be considered depending on the full objective of the review. For example, under the self-assessment with external validation option, the internal audit function may drive the independent reviewer to increase its scope to include more management and audit committee interviews, review additional audits completed and evaluate the internal audit activity against leading practices.