

CHAPTER VIII

QUALITY ASSURANCE AND IMPROVEMENT

IIA Standard 1300 - Quality Assurance and Improvement Program:

The Chief Internal Audit must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Interpretation:

Interpretation: A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

IIA Standard 1310 - Requirements of the Quality Assurance and Improvement Program:

The quality assurance and improvement program must include both internal and external assessments.

IIA Standard 1311 - Internal Assessments:

Internal assessments must include:

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

IIA Standard 1312 - External Assessments:

External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The Chief Internal Audit must discuss with the board:

- *The need for more frequent external assessments; and*
- *The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.*

IIA Standard 1320 - Reporting on the Quality Assurance and Improvement Program:

The Chief Internal Audit must communicate the results of the quality assurance and improvement program to senior management and the board.

IIA Standard 1321 - Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”:

The Chief Internal Audit may state that the internal audit activity conforms with the International Standards of Internal Auditing only if the results of the quality assurance and improvement program support this statement.

IIA Standard 1322 - Disclosure of non-conformance:

When non-conformance with the Code of Ethics or the Standards impacts the overall scope or operation of the internal audit activity, the Chief Internal Audit must disclose the nonconformance and the impact to senior management and the board.

1. Introduction

1.1 The Internal Audit Service in the RGoB is a professional service, which is subject to both the RGoB policies and the Definition of Internal Audit, the Code of Ethics for Internal Auditors and the Auditing Standards that have been promulgated and/or adopted by the RGoB. The Auditing Standards require the implementation of a Quality Assurance and Improvement Programme (QAIP) to ensure conformance with the Definition of Internal Audit, the Code of Ethics for Internal Auditors and the Auditing Standards. In addition to the specific auditing standards relating to QAIP, which are detailed above, the IIA has also issued the following comprehensive Practice Advisories:

- (i) Practice Advisory 1300-1: Quality Assurance and Improvement Program.
- (ii) Practice Advisory 1310 - 1: Requirements of the Quality Assurance and Improvement Program.
- (iii) Practice Advisory 1311-1: Internal Assessments.
- (iv) Practice Advisory 1312-1: External Assessments.

1.2 The Auditing Standards and the Practice Advisories provide the basis for this section of the Audit Manual. CIA's and Internal Auditors should carefully review and understand the Practice Advisories in the context of the relevant Auditing Standards.

2. Quality Assurance and Improvement Programme (QAIP) - Nature and Objectives.**2.1 Responsibility for QAIP**

2.1.1 According to auditing standards, the CIA is responsible for developing and maintaining a quality assurance programme (QAIP) so as to provide reasonable assurance to the Chief Executive and other stakeholders that the internal audit activity:

- (i) Performs in accordance with the Internal Audit Charter, which is consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.
- (ii) Operates in an effective and efficient manner.
- (iii) Is perceived by the stakeholders as adding value and improving the organization's operations.

2.2 Components of QAIP

2.2.1 A comprehensive QAIP normally includes three components as follows:

- (i) Ongoing supervision and monitoring of quality assurance by the CIA and senior auditors.
- (ii) Periodic internal assessments of the internal audit activities.
- (iii) Periodic external assessments of the internal audit activities and validation of conformance with the Standards.

2.3 Objective of the QAIP

2.3.1 The objective of the QAIP is to assess the entire spectrum of the internal audit activity, identify weaknesses and opportunities and make recommendations for the improvement of its effectiveness and efficiency. The assessments are focused on determining the internal audit activities:

- (i) Conformance with the Definition of Internal Auditing, the Code of Ethics, and Standards.
- (ii) Adequacy of the charter, goals, objectives, policies, and procedures.
- (iii) Integration into the governance, risk management and control environment of the entity.
- (iv) Compliance with applicable laws, regulations, and government or industry standards.
- (v) Contribution to the organization's governance, risk management, and control processes.
- (vi) Meets the expectations of the Chief Executive, senior management and other stakeholders, particularly in adding value and improving the organizations operations.
- (vii) Efficiency and effectiveness in performing its mandate and has processes to facilitate continuous improvement, including the adoption of best practices.
- (viii) Effectiveness in staff development and the adoption of new audit methodologies and techniques.

3. Implementation of the Quality Assurance and Improvement Programmes (QAIP)

3.1 Ongoing supervision and monitoring of the internal audit activity by the CIA.

3.1.1. Quality assurance is a continuous process. Ongoing monitoring is an integral part of that quality assurance process and it covers all phases of the internal audit cycle from planning to the follow-up of the implementation of audit recommendations by the Auditee. The Audit Manual incorporates procedures and processes to facilitate the CIA in conducting ongoing monitoring of all audit work. The CIAs, where necessary, can also recommend to CCA/IAB augmentation on the Internal Audit Manual with additional procedures required in the local situation to ensure the quality of the audit work.

- 3.1.2 Supervision and oversight at all stages of the audit work is a key element of the QAIP in RGoB. CIAs have the responsibility to ensure that there is adequate supervision, review and measurement of the work performed by the Internal Auditors and other staff in the IAD. This continuous supervisory work includes review of adherence to established standards and policies and the exercise of due professional care by all Internal Auditors in the conduct of all aspects of audit work. The review should also include maintaining proper project budgets, timekeeping systems and records, progress made on completion of annual audit plans. Another important aspect of the improvement process is the regular review of the feedback received from the Chief Executive, senior Management, Auditees and stakeholders, and taking measures to address concerns and suggestions received, where appropriate and necessary.
- 3.1.3 The CIA should keep a record of monitoring reviews undertaken, the conclusions made and specific actions taken to remedy identified deficiencies.

3.2 Periodic Internal Assessment

- 3.2.1 Periodic internal assessments are in fact a self-assessment of the work of the IAD. Independent persons within an Audit Unit who are not directly involved in conducting the work being reviewed normally perform the assessment. Because IA activities differ particularly in size, nature of authority and responsibility, scope of work and staff skills, the self-assessment programme must be flexible.
- 3.2.2 The CIAs should liaise with the CCA/IAB to arrange for an internal assessment to be conducted at least once every year. The CCA/IAB should coordinate with all IADs and establish an annual programme of internal assessments for all IADs in the RGoB.
- 3.3.3 The internal assessments should include all those issues mentioned in paragraph 2.3 and the effectiveness and efficiency of the management of the audit processes.
- 3.2.4 The CCA/IAB should conduct the internal assessment using its own staff and experienced staff from other IADs on a rotational basis.
- 3.2.5 The Assessment team, along with the CIA should decide on the tools to use to complete the assessment considering the specific objectives of the assessment assignment. These may include some or all of the following:
- (i) Questionnaires to determine the processes established to establish Audit Strategy and Annual Audit Plans and the extent of coverage.
 - (ii) Evaluation of actual work completed against plan and the reasons for the variance.
 - (iii) Review of selected audits from engagement planning to its reporting, including the adequacy of working papers and evidence of monitoring control by the CIA.
 - (iv) Interviews with Internal Auditors with respect to their respective understanding of the work undertaken as well as their roles.
 - (v) Adequacy of time keeping records and the efficiency of the work undertaken.
 - (vi) Interviews with Chief executive, Auditees and other stakeholders to determine their perception of the effectiveness of the IADs in addressing organizational issues and its contribution to or adding value to the organization.

- 3.2.6 The Quality Assessment Manual issued by the Institute of Internal Auditors provides excellent guidelines, tools and questionnaires for conducting the internal assessments. Where necessary and appropriate, these can be modified to suit local needs and conditions.
- 3.2.7 The Checklist contained in Annex VII-1 to this Chapter could be used to ensure that quality assurance review is conducted and reported on professionally.
- 3.2.8 All findings and recommendations resulting from the Internal Assessment review should be properly documented. Properly conducted and recorded internal assessments would reduce the level of effort required to perform External Assessments.
- 3.2.9 The reports resulting from the Internal Assessments shall be addressed to the responsible CIA of the IAD.
- 3.2.10 The Internal Assessment process should be considered as a cooperative exercise that is not only geared to improve the quality of internal audit services in a particular IAD, but also the RGoB as a whole. The assessment process also helps sharing of knowledge and building capacity within the IAS.

3.3 External Assessments

- 3.3.1 External quality assessments evaluate conformance of the internal audit function with the Internal Audit Charter, guidelines and directives issued by the MoF, Definition of Internal Auditing, the Code of Ethics, the Standards and additionally with internal auditing best practices. The Standards require such assessments to be conducted at least once every five years.
- 3.3.2 The External Assessment should be conducted by qualified and independent reviewers from outside the organization.
- 3.3.3 The provision of an effective internal audit service is a government objective, provided for in the Public Finance Act, it would be more useful, effective and cost-efficient if a unified External Assessment of the overall function of the IAS within RGOB and encompassing all the IADs within the service were conducted as a whole. The CCA/IAB should coordinate with all IADs and arrange for a unified External Assessment at least once every five years. The terms of reference for such an assessment may be based on the guidelines contained in the Quality Assessment Manual issued by the Institute of Internal Auditors and other requirements that may be necessary for the specific situation in the RGoB.
- 3.3.4 The CCA/IAB and all the IADs should cooperate with and facilitate the work of the reviewers appointed to conduct the external assessment so that the exercise will be useful in helping further strengthening the IAS as an effective organ of the RGoB.

4. Reporting and Acting on Results of Quality Assurance and Improvement Programme

- 4.1 Auditing Standards require the CIA to report to the Chief Executive of the entity the results of all the periodic assessments, including internal and external, together with a plan of action for the implementation of all recommendations arising from the assessments. The actions resulting from the recommendations could include modification of resources, technology, processes, and procedures.

- 4.2 In order to ensure the better coordination and the development of a quality internal audit services across the RGoB, CIAs should submit the results of all assessments, both internal and external, to the CCA/IAB for review so that, if necessary, action may be taken to modify policies issued by the MOF, advocate the allocation of additional resources for the IADs at the level of central agencies and also formulate and develop more effective staff development and training programmes. The CIA should also submit to the CCA/IAB a copy of the proposed plan of action together with the Chief Executive's approval and/or comments with respect to the recommendations and proposed action plan.
- 4.3 The CIA should report periodically to both the Chief Executive of the entity and the CCA/IAB the progress made in the implementation of the action plan.
- 4.4 The CCA/IAB should submit an annual report to the Secretary, MOF containing a summary of significant findings and recommendations resulting from internal assessments completed during the year. The CCA/IAB should also identify if any action is required either by the MOF or any other central agency and propose an action plan for their consideration, approval and implementation.
- 4.5 The CCA/IAB must submit the Report resulting from the External Assessment on the IAS as a whole to the Secretary of the MOF, other central agencies of the RGoB, the Chief Executives of all RGoB entities where there is an IADs. The CCA/IAB should prepare an action plan to implement the recommendations of the External Assessment report. After the approvals of the Secretary, MOF, the action plan should be communicated to the Chief Executives of all RGoB entities where there is IADs. The implementation of the action plan should be monitored and reported to the Secretary, MOF.

CHECKLIST FOR QUALITY ASSURANCE REVIEW

- 1. The planning process undertaken is well documented in the working papers and includes among others:**
 - (i) Initial audit objectives and scope specified as per annual plan.
 - (ii) Background information on the areas to be audited has been adequately researched and documented.
 - (iii) Formal notification provided to Auditee,
 - (iv) Interview notes with Auditee have been properly recorded.
 - (v) Risk and internal control processes put in place by management have been properly reviewed, documented and evaluated for its adequacy. If not, the Auditor has conducted a risk assessment and identified the existence of appropriate controls or lack thereof.
 - (vi) Resource requirements and scheduling estimated and approved.

- 2. The assessment is properly conducted and reported:**
 - (i) Final audit objectives and scope are clearly stated and supported by the planning undertaken, e.g. consistent with the key risks identified and the audit criteria are appropriate for the achievement of objectives.
 - (ii) Understanding of the plan for the engagement by the Auditee is documented.
 - (iii) The audit program is appropriate to achievement of the objectives and is approved by an appropriate senior level in the internal audit group.
 - (iv) The working papers demonstrate that the audit program has been completed as intended (or as modified with appropriate approval) and comprise information collected and analyses undertaken on all matters related to the audit objectives and the scope of the work.
 - (v) Observations and conclusions are based on evidence that is contained in the working papers and that is appropriate (e.g. sufficient, reliable, and relevant).
 - (vi) Conclusions and recommendations are discussed with the Auditee and appropriate levels of management before issuance of the draft report.
 - (vii) The draft report includes the audit objectives, scope, criteria, methodology, and results of the engagement, including findings, conclusions, and recommendations for improvement.
 - (viii) The findings documented in the draft report are cross-referenced to the supporting documentation in the working

- (ix) Conclusions are consistent with the objectives defined in the plan for the engagement and with the detailed findings. An appropriate statement of assurance is provided.
- (x) The draft report is objective, balanced, clear, concise, constructive, and timely.
- (xi) Auditee responses and action plans address the recommendations.
- (xii) Significant issues raised in the report, particularly where there is disagreement, are discussed and noted in report.