

# *Topeka Chapter of the Institute of Internal Auditors*

## *Quality Assurance Reviews –*

*Leveraging external quality assurance reviews  
to strengthen the strategic value of internal audit*

*March 2011*

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# Overview

The Foundation-IIA Standards

The range of options

Lessons learned

Going above and beyond - Attributes of high performing internal audit functions

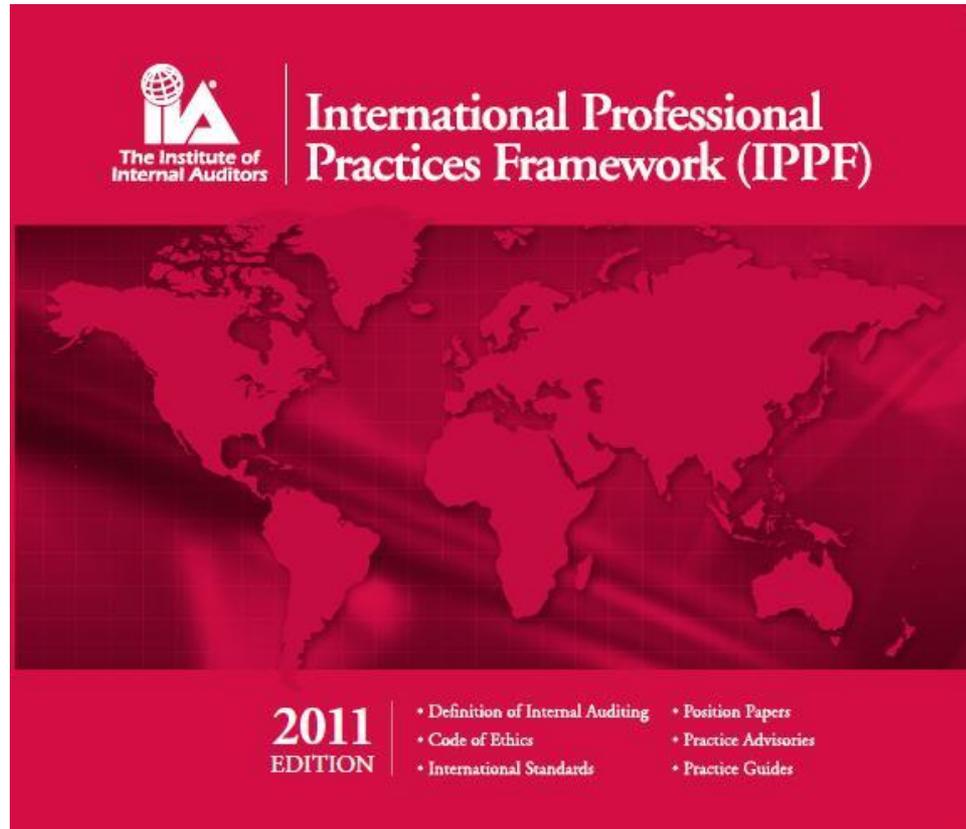
Getting value through quality assessment and improvement programs

Questions and further discussion

Quality assurance reviews provide an excellent opportunity for internal audit departments to offer greater value and better quality assurance to their organizations.

# The Foundation

## **I**nternational **P**rofessional **P**ractices **F**ramework



# IPPF:

## Authoritative Guidance for IIA Members

<b>Mandatory</b>
<b>Non mandatory Strongly recommended</b>



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# The Foundation – IIA Standards for External Quality Assessments

## 1300 – Quality Assurance and Improvement Program

- The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

### 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.

## 1310 – Requirements of the Quality Assurance and Improvement Program

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

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# The Foundation – IIA Standards for External Quality Assessments

## 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 audit executive 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 conflicts of interest.

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# The Foundation – IIA Standards for External Quality Assessments

## Interpretation to 1312:

- A qualified reviewer or review team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of a review team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether a reviewer or review team demonstrates sufficient competence to be qualified.
- 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.

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# The Foundation – IIA Standards for External Quality Assessments

1320 – Reporting on the Quality Assurance and Improvement Program

- The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

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# The range of options

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## Who – The range of options

- Self assessment with independent validation
- Round robin assessments
- Who performs external assessments?
  - The IIA
  - Some industry groups
  - Retired CAEs
  - Smaller firms
  - Major firms

Consider not only the provider's experience in assessing compliance with Standards, but also in assessing high-performing departments in your industry.

Understand the quality of how they capture knowledge and benchmark.

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# How – The range of options

- Self assessment with independent validation\*
  - Assessment for conformance with Standards
  - Going beyond Standards:
    - Strategy, Structure, People, Process and Technology
    - Stakeholder expectations, best practices, benchmarking, risk coverage and more
    - Strengths as well as opportunities for improvement – a roadmap for the future
- \* Not recommended for significant functions.

The option selected depends on the stature of the organization and the goals for the assessment.

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# What – The range of options

- Interviews – Stakeholders and Internal audit
- Surveys – Stakeholders and Internal audit
- Information analysis
  - Charter
  - Policies and procedures
  - Resource plans
  - Talent development
  - Risk assessment and audit plan
  - Workpapers
  - Communications and reporting
  - Performance measures

World-class internal audit groups view external quality assurance reviews as catalysts for enhancing the strategic performance of their internal audit departments by:

- 1) providing greater value to their organizations,
- 2) fostering quality assurance and improvement and
- 3) meeting the escalating expectations of key internal audit stakeholders.

# Beyond the Standards - Typical Areas of Focus

## Strategy

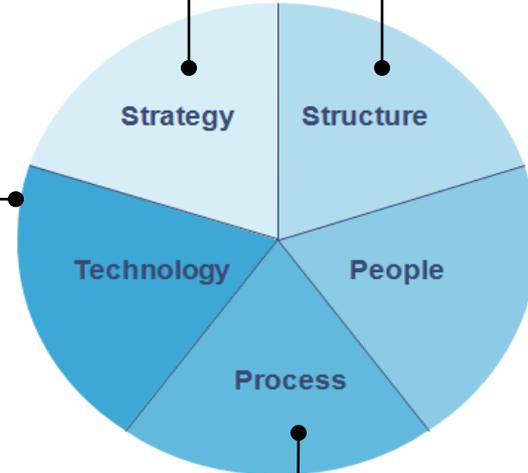
- Scope alignment
- Stakeholder engagement
- Strategy and roadmap
- Performance metrics

## Structure

- Business alignment
- Credibility in organization
- Global geographic structure
- Responsiveness & flexibility

## Technology

- Data analytics & tools
- Integrated GRC tools
- Knowledge management
- Technology used to drive efficiency



## People

- Attracting, developing & retaining talent
- Best practices knowledge
- Business acumen
- Functional skill mix & staffing model
- Influencing skills

## Process

- Integrated planning
- Project management
- Resource productivity
- Timely and balanced reporting
- Volume & frequency of audits

# What – Reporting

A typical fuller external quality assessment report may include:

- Executive summary
- Scope of work
- Conformance to Standards (Generally conforms, partially conforms or does not conform)
- Overview of benchmarking
- Strengths
- Improvement opportunities
- Appendices with details

The reporting should provide assurance and help be a roadmap looking forward.

Brainstorming sessions surrounding the report observations can help Internal Audit define its path.

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# Lessons Learned

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# Lessons Learned

- Choose the right team for the external quality assessment
- Be prepared:
  - Leverage your internal quality assessment and improvement program
  - Get together the information needed
- Align with your stakeholders
- Leverage this for both assurance and improvement

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# Lessons Learned

## Steps:

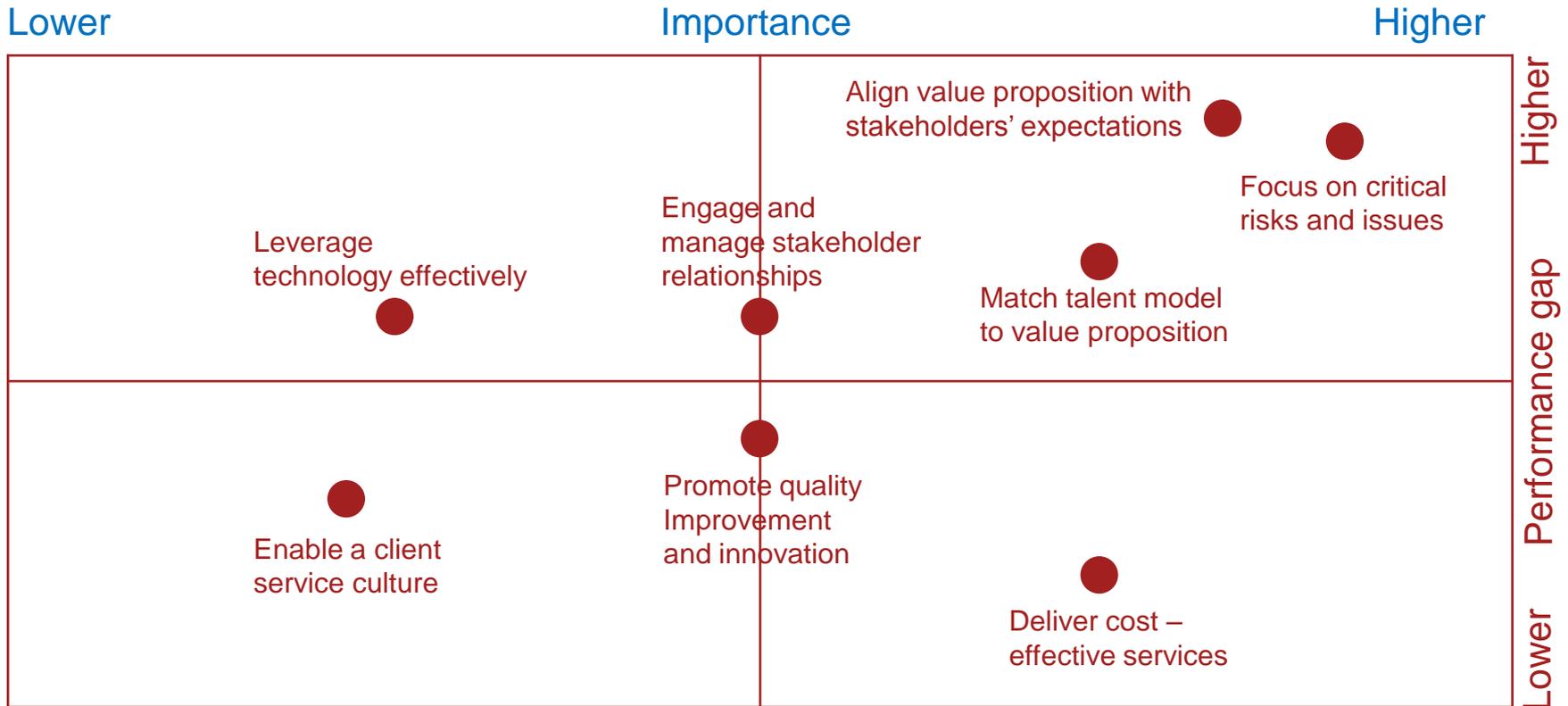
- Commit to quality assurance and improvement – deliberate and documented, conduct a gap analysis
- Design and implement a quality assurance and improvement program
- Implement policies and protocols
- Conduct a quality assurance review
- Correct and enhance
- Continuously assess performance

It's a process, not a destination

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# Attributes of High Performing Internal Audit Functions

# 8 Attributes of Leading Internal Audit Activities - Chief Audit Executives ranking by importance and performance



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# #1 Align value proposition with stakeholder expectations

- Engage audit stakeholders to determine needs and goals.
- Create and update a charter that defines the audit mandate.
- Define the IA function's scope of services.
- Effect the audit charter with a detailed strategy document.
- Devise a strategy to continually improve the audit function.
- Use a balanced scorecard and performance measures to assure ongoing alignment.

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## #2 Target the most critical risks and business issues.

- Focus on critical risks and business issues with a top-down approach.
- Adopt a formal risk analysis framework.
- Identify key strategic risks enterprise wide.
- Define IA's enterprise risk management role and contribute to enhancing risk management maturity.
- Create and update rolling, risk-based audit plans.
- Deploy resources in accordance to critical need and strategic importance.

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## #3 Engage stakeholders and deliver on expectations.

- Build key stakeholder relationships and align reporting hierarchies.
- Position internal audit as an efficiently managed business partner.
- Define IA's role related to governance, risk, and compliance functions.
- Deliver insightful, impactful and constructive communications and reports.

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## #4 Deliver services cost-effectively

- Determine the appropriate staffing composition and management-to-staff ratio.
- Use lean and consistent audit processes companywide.
- Apply technology strategically to achieve positive return on investment and enhanced efficiency.
- Identify the appropriate mix of core versus noncore services.
- Define and monitor tangible productivity standards and metrics.

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## #5 Align the internal audit talent model to the value proposition

- Specify the desired skill and business experience mix of core and specialist auditors.
- Establish formal training and professional development programs aligned to the talent model.
- Establish clearly defined career paths.
- Boost auditor development with a formal performance management system.
- Embed a virtual resource model including co-sourcing to enhance excellence in skills, coverage and talent.
- Expand staff capabilities with tour of duty and guest auditor programs.

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## #6 Enable a client service culture

- Provide training and development in soft skills and business acumen.
- Recruit and retain experienced auditors with relevant business experience.
- Foster an environment that encourages independence, objectivity, and adding value.
- Make communication skills a core competency of the internal audit staff.
- Communicate the value added by internal audit.
- Use formal mechanisms to gauge stakeholder and audit customer satisfaction.

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## #7 Promote quality improvement and innovation

- Adhere to The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.
- Establish a closed-loop system of continuous quality review and improvement.
- Promote a culture of innovation and process improvement.
- Apply quality improvement and lean techniques to audit processes.
- Establish technology, policies, and processes to create a knowledge management capability.

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## #8 Leverage technology effectively

- Implement an audit management platform for efficiency and effectiveness.
- Use data analytics and business intelligence technology to deliver the IA mission.
- Utilize automated controls monitoring software.
- Leverage enterprise resource planning (ERP) capabilities to realize continuous auditing.
- Use internal audit as a knowledge resource for risk, controls, and best practices.
- Align audit technology with companywide GRC tools.

# Understand current and future internal audit trends

Richard Chambers  
IIA President and CEO



## 10Minutes on Maximizing Internal Audit\*

What you need to know about emerging risks, assets to your bottom line and more. *Thought Leadership Institute* December 2009

### Enhanced role key to reducing risk, optimizing cost

**Highlights:**

- The current financial crisis has led to a re-evaluation of the role of internal audit.
- Companies are realizing a more strategic role for internal audit in the current crisis.
- The thought leadership institute suggests ways to help companies and their stakeholders.
- The role of internal audit is being re-evaluated and is being given a more strategic role.

*Thought Leadership Institute*

### Internal Audit Services

# Maximizing internal audit

A 10-step imperative for thriving in a challenging economy

### Thought Leadership Institute

## Seizing opportunity Linking risk and performance

PRICEWATERHOUSECOOPERS

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# Getting value through quality assessment and improvement programs

- Assure Stakeholders
- Support and enhance the stature, image and importance of Internal Audit within the organization
- Enhance Internal Audit 's role, capabilities and performance
- Comply with IIA Standards
- Objectively valid current Internal Audit practices
- Obtain funding to implement new and innovative solutions
- Drive an roadmap to improve Internal Audit effectiveness
- Accelerate results

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# Questions and further discussion

## Thank you.

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