Chapter 1

The Framework for Quality Assurance

OVERVIEW

A critical asset for an internal audit activity is its credibility with stakeholders. To provide credible assistance and constructive challenge to management, internal auditors must be perceived as professionals. Professionalism requires conforming to a set of professional standards. This chapter provides an overview of The IIA's *International Standards for the Professional Practice of Internal Auditing* and the other elements that make up the International Professional Practices Framework (IPPF). It explains how each has evolved as the profession has matured, and how their application should be tailored to each organization without compromising conformance with the *Standards*. In particular, it presents and discusses the 1300 series of the *Standards* that deals specifically with quality assurance.

STANDARDS REQUIRE QUALITY ASSURANCE FOCUS

Chief audit executives (CAEs) need assurance that their internal audit activity and each member of their staff conform to all mandatory elements of the IPPF, and they need to demonstrate this conformance to their stakeholders. The only way to meet these expectations is with a comprehensive quality assurance and improvement program (QAIP) that includes ongoing monitoring of performance, periodic internal assessments, external assessments conducted by a qualified, independent assessor or assessment team from outside the organization, and communication of the results.

Standards and Other Professional Guidance Have Evolved With the Profession

The steadily expanding scope and global reach of internal auditing is reflected in and fostered by changes in the *Standards* and professional guidance. Changes occurred in the *Standards* effective January 1, 2017, and contribute to the update to this manual. A significant change in professional guidance occurred in 1999 with a new Definition of Internal Auditing and the development of the Professional Practices Framework, which became the IPPF in 2009. The IPPF was further updated and expanded in July 2015, and again in 2017. Evaluating risk management and governance processes is much more challenging and meaningful than control alone. It requires internal audit to operate at a higher, more strategic level. To operate at this level, internal auditors need a higher level of credibility with their stakeholders.

Quality Assurance Has Evolved With the *Standards*

The original *Standards* (1978) stated, "The director of internal auditing should establish and maintain a quality assurance program" that includes an external quality assessment (EQA) every three years. The three-year time frame was chosen to be in line with guidance from the U.S. Government Accountability Office (U.S. GAO). In the 2002 revision of the *Standards,* The IIA changed the time frame to every five years, as this was considered more appropriate for an internal audit activity.

The IPPF
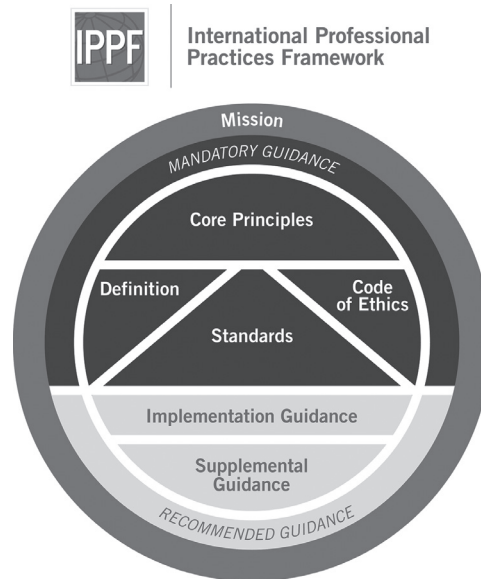
The requirements and characteristics of quality in an internal audit activity are defined by the IPPF, which consists of mandatory and recommended guidance, all provided within the context of the Mission of Internal Audit as defined in the IPPF.

Mandatory Guidance

Mandatory guidance is considered essential for the professional practice of internal auditing. Mandatory guidance is submitted for review by the entire global profession through the exposure draft process. It consists of four elements:

- **Core Principles**: The Core Principles for the Professional Practice of Internal Auditing are the foundation for the IPPF and support internal audit effectiveness.

- **Definition of Internal Auditing**: "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

- **Code of Ethics**: The Principles and Rules of Conduct of the Code of Ethics define ethical behavior for a professional internal auditor.

- ***Standards***: The *Standards* are the central criteria that define the attributes and characteristics of performance for an internal audit activity, including the requirements for a QAIP.

Recommended Guidance

Recommended guidance is endorsed by The IIA through a formal approval process. It describes practices for the effective implementation of the Core Principles, the Definition of Internal Auditing, the Code of Ethics, and the *Standards.* Recommended guidance helps internal auditors understand and apply the *Standards* and may provide insight into going beyond conformance to a higher level of adding value, or addressing issues of concern not related to a specific standard. Recommended guidance is described in terms of implementation guidance and supplemental guidance and is available to IIA members on The IIA's websites: global.theiia.org and na.theiia.org.

- **Implementation Guidance:** Implementation Guides exist for each standard. They are intended to provide guidance to internal audit practitioners with regard to conformance with the *Standards*.

- **Supplemental Guidance:** Supplemental guidance provides detailed guidance for conducting internal audit activities. Supplemental guidance includes topical areas, sector-specific issues, as well as processes and procedures, tools and techniques, programs, step-by-step approaches, and examples of deliverables. Examples of supplemental guidance currently include Practice Guides, Global Technology Audit Guides (GTAGs), and Guides to the Assessment of IT Risk (GAIT).

Quality Assurance and Improvement Program

Standard 1300 – Quality Assurance and Improvement Program is included in full because it defines the requirements for a QAIP. Consult The IIA's website for the most current version of the *Standards* and for recommended guidance. Chapter 2 of this manual describes the requirements and considerations for establishing a QAIP. Chapters 3, 4, and 5 describe the requirements and considerations for performing internal assessments, a full external assessment, and a self-assessment with independent validation, respectively.

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 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. The chief audit executive should encourage board oversight in the quality assurance and improvement program.*

1310 – Requirements of the Quality Assurance and Improvement Program

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

1311 – Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.

- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and the Standards.

Periodic assessments are conducted to evaluate conformance with the Code of Ethics and the Standards.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 – External Assessments

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 must discuss with the board:

- The form and frequency of external assessment.

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

Interpretation:

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; *the external assessment may also include operational or strategic comments.*

A qualified assessor or assessment 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 an assessment 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 an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having an actual or perceived conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

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. Disclosure should include:

- The scope and frequency of both the internal and external assessments.

- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.

- Conclusions of assessors.

- Corrective action plans.

Interpretation:

The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Code of Ethics and the Standards, *the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's assessment with respect to the degree of conformance.*

1321 – Use of "Conforms with the *International Standards for the Professional Practice of Internal Auditing*"

Indicating that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* is appropriate only if supported by the results of the quality assurance and improvement program.

Interpretation:

The internal audit activity conforms with the Code of Ethics and the Standards *when it achieves the outcomes described therein. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have*

the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

1322 – Disclosure of Nonconformance

When nonconformance with the Code of Ethics or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

APPLICATION OF THE IPPF

The IPPF is the foundation of quality for an internal audit activity. While it is equally applicable to all internal audit activities, the actual practice of internal auditing within an organization must be adapted to such factors as an organization's legal, regulatory, and cultural environment, and industry, size, and stakeholder expectations. The CAE must adapt internal auditing to the organization's environment while still conforming with the *Standards.* Assessors should consider this adaptation.

Internal auditing may be less mature in emerging countries, privately held (not listed) companies, not-for-profit organizations, small companies, and organizations with a relatively new internal audit activity. At the same time, many mature internal audit activities that are generally in conformance with the *Standards* and the Code of Ethics look for ways to provide context to the operation of their activity. Maturity models are used in some of these organizations to provide this context. Examples of maturity models are available on the internet and can be adapted by an organization to provide additional insight into maturity levels for specific internal audit processes or elements of infrastructure.