

AUDIT HORIZONS

Quality Assurance and Improvement Program

Is an external quality assessment
worth what it costs?

Larry Hubbard
www.LHubbard.com



Table of Content



- What is it Called?
- Types of QA's
- The Costs
- The Benefits
- The Intangibles
- Most Frequent Findings
- The Wrap-up



What is it Called

- QA, QAR, Peer Review
- QA = Quality Assessment
- QAR = Quality Assurance Review, Not Quality Assessment Review
- Peer Review = If you can ...
- Conformance with the IPPF

The IPPF



Standards & Guidance — International Professional Practices Framework (IPPF)



Types of QA's

- Periodic Internal Assessments, done periodically (every one to two years) to self-assess your conformance with with the IPPF.
- Ongoing Internal Assessments, are day-to-day monitoring (time keeping, evaluations of performance, status reports, ...)
- External Assessments, done at least every 5 years by an outsider.

STANDARD 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.

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



External Assessments

- Full External Assessment (FEA). Three to five days by an external team of auditors. At least 2x the cost.
- Independent External Validation of your Periodic Internal Assessment (SAIV). One to three days by an external person.



The Costs

- Full External Assessment (FEA). Three to five days by an external team of auditors. At least 2x the cost.
 - 2 auditors, \$6k - \$12k
 - 5 auditors, \$12k - \$20k
- Independent External Validation of your Periodic Internal Assessment (SAIV). One to three days by an external person.
 - \$3k - \$10k



The Benefits

“Conducted in Conformance with the
International Standards for the Professional
Practice of Internal Auditing”



The Benefits - Continued

- Full External Assessment (FEA).
 - Detailed input from audit experts
 - Can answer "who audits the auditors?"
- Independent External Validation of your Periodic Internal Assessment (SAIV).
 - Your auditors can learn more (self-assessment)
 - Lower "real" money spent
 - Is easy, if you do Periodic Internal Assessments



The Intangibles

- Its YOUR project, not the external firm's. Be specific and bold about what you want. (Interviews, surveys, length of time, size of team.) Act like you don't have to spend the \$.
- In RFP, set \$ range, and "Standards Comparison First"
- Ask for training, or seminar, for staff about the results, included in the price of the project.
- Demand the QA Report in draft form, timely.



The Intangibles (more)

Know the Terminology!

- Independent vs. Objective
- Conformance vs. Compliance
- Who is the Board?
- Use the IIA's resources
- A QA does NOT rethink the audit steps, it looks for evidence of conformance with Standards.
- QAR, QA meanings.
- Define your QAIP: internal assessments, metrics, benchmarking, professional participation

Definition of IA

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.

Conformance or Compliance?

Conformance with standards is a technical term borrowed from the quality management discipline. It is not about complying with the letter of the standard. Someone who is in conformance with a standard is expected to achieve the spirit of the standard. This is consistent with a principles based approach.

From Chartered Institute of Internal Auditors UK and Ireland, Professional guidance for internal auditors – Quality assurance and improvement programmes, 2007, as quoted in March 2012 QAIP Practice Guide

The Board?

The highest level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the Standards refers to a group or person charged with governance of the organization. Furthermore, "board" in the Standards may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

IIA Resources

- Sample Charters
- Implementation Guide 1300
- Presentations
- QA Manual (major caution!)

The Institute of Internal Auditors North America

Search [Advanced search](#)

[Standards & Guidance](#) [Bookstore & Publications](#) [Certifications & Qualifications](#) [Learning & Events](#) [Membership](#) [Services](#) [About Us](#)

[Home](#) > [Services](#) > [Quality](#) > [Guidance](#)

[DONATE NOW](#) [JOIN THE IIA](#)

Quality

- Quality Assurance
- Quality Services
- Resources**
- Volunteer
- Contact Quality
- Quality FAQ

Access Quality Assessment Resources

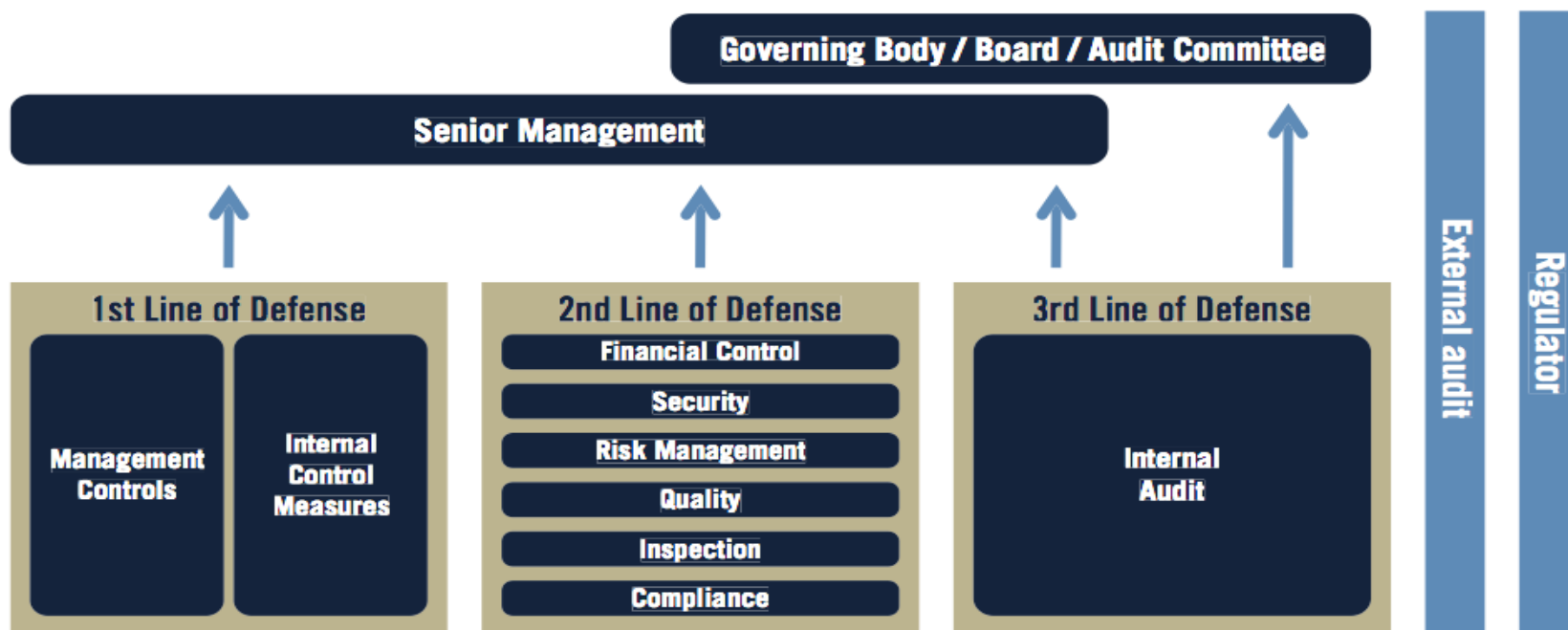


The Intangibles (still more)

- Ask “What do the Standards Say?” about every issue raised.
- It’s YOUR Annual Audit Plan, regardless of origin
- You should know what the External Team will find, from your periodic internal assessment
- Pre-define the Three Lines of Defense
- Have specific definitions of the terms:
 - Internal control (Internal Controls, Control Processes, Management Controls, Business Controls ...)
 - Findings, issues, observations

Three Lines of Defense Model

The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

From: January 2013 Position Paper

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

From Standard 2201: Consider “The adequacy and effectiveness of the activity’s governance, risk management, and control processes compared to a relevant framework or model.”



Most Frequent Findings

- Charter not up-to-date (Std 1010)
- No periodic internal assessment (Std 1311)
- No entity-level fraud risk assessment (Std 2120.A2 and 2210.A2)
- No reporting of governance process and fraud risks (Std 2060)
- No specific definition of internal control
- Risk/Control Matrix is not a useful process

Inherent Risk Matrix or Register

Activity/Objective:

Risks	Risk Rating (H,M,L)	Response to Risk/ Controls	Design Adequate?



The Wrap-up

Is an external quality assessment worth what it costs?

YES, if you own it and get the benefits possible.

NO, if you let it be done to you.