

Quality Assurance and Improvement Program (QAIP)

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Class Overview

- Overview- QAIP
- The QAIP Framework
- Internal Assessments
- Periodic Self-Assessments
- Continuous Improvement
- External Assessments
 - Full external assessment vs self-assessment
 - Reporting
 - Standards and Sample Test Procedures
- Keys to Success



Overview-QAIP



- *Standard 1300 –Quality Assurance and Improvement Program* states “ The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity”
- “Designed to enable an evaluation of the internal audit activity’s conformance with the International Standards for the Professional Practice of Internal Auditing (Standards) and whether internal auditors apply The IIA’s Code of Ethics.”



Overview- QAIP

- Must include ongoing and periodic internal assessments, and external assessments by a qualified independent assessor or assessment team from outside the organization.
- Quality built through internal audit methodology, policies and procedures, and human resource practices.



The QAIP Framework



The QAIP Framework

- A framework can be used to describe the complete environment for developing and implementing the QAIP.
- Common elements include:
 - A scope that includes all aspects of the internal audit activity
 - An evaluation of conformance with the *Standards* and the Code of Ethics.
 - An appraisal of the efficiency and effectiveness of the internal audit activity.
 - The identification of opportunities for continuous improvement.
 - Involvement by the board in oversight of the QAIP.

Internal Assessments



Internal Assessments

- *Standard 1311- Internal Assessments* states “ 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.”



Internal Assessments

- Ongoing (or Continuous) Monitoring- Determines whether the processes are delivering quality on an engagement-by-engagement basis.
- Should occur routinely throughout the year through implementation of standard working practices.
- Adequate supervision is the most fundamental element of any quality assurance process.
 - Supervision begins with planning and continues throughout the performance and communication phases of the engagement.
 - Adequate supervision is ensured through work paper review procedures, including timely sign-off by the individual responsible.

- Mechanisms may be used for ongoing monitoring.
 - Checklists or automation tools to provide assurance on compliance with established practices and procedures.
 - Acquiring feedback from management.
 - Survey tool or conversation
 - Using measures of project budgets, timekeeping systems, and audit plan completion.
 - Budget to actual variance
 - Key performance indicators such as number of certified individuals in internal audit, years of experience, and training hours earned each year.

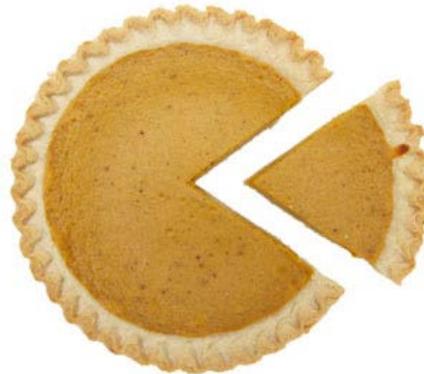
Internal Assessments

- Results of ongoing monitoring must be reported to the board or the audit committee at least annually.
- Adequacy and effectiveness should be evaluated as part of the periodic self-assessments.



Internal Assessments

- Periodic Self-Assessments have a different focus than ongoing monitoring in that they generally provide a more holistic, comprehensive review of the *Standards* and the internal audit activity.
 - Periodic-self assessment- internal audit activity
 - Ongoing monitoring-engagement level



Internal Assessments

- Periodic Self-Assessments should validate conformance with the *Standards* and Code of Ethics.
- Additionally may evaluate:
 - Quality and supervision of work performed
 - Adequacy and appropriateness of internal audit policies and procedures
 - The ways in which the internal audit activity adds values
 - Achievements of key performance indicators
- Generally conducted by senior members of the internal audit activity.
 - Including others may serve as a useful training opportunity to improve the understanding of the performance standards.

Internal Assessments

- Considerations for demonstrating conformance:
 - Completed checklists supporting work paper reviews
 - Survey results
 - Budget vs actual analysis
 - Documentation of periodic assessments
 - Scope of review and approach plan
 - Work papers
 - Communication reports
 - Presentations to the board and management
 - Meeting minutes
 - QAIP Results
 - Corrective action plans

- Considerations for demonstrating conformance (continued):
 - Presentations to the board and management
 - Meeting minutes
 - QAIP Results
 - Corrective action plans
 - Corrective actions taken to improve conformance
 - Actions take to improve efficiency and effectiveness

Continuous Improvement



Continuous Improvement

- Primary focus of the QAIP must be on evaluating conformance with the *Standards* and the Code of Ethics, however, the real value to internal audit is from the focus on continuous improvement.
- Embedding the concept of continuous improvement may result in many additional benefits, such as:
 - Positioning internal audit activity for success within the organization
 - Greater alignment with the organization's strategies and objectives
 - Enhanced productivity
 - Improved internal audit staff morale

Continuous Improvement

- Organizations can use a gap analysis to compare current performance with desired future performance.
- Documentation on internal assessments should contain summaries of continuous improvement efforts within the internal audit activity.



External Assessments



- *The Institute of Internal Auditors' (IIA's) International Standards for Professional Practice of Internal Auditing (Standards)* requires external assessments to be conducted at least once every 5 years by an outside team of independent assessors to evaluate an internal audit activity's conformance with the IIA's Definition of Internal Auditing, Code of Ethics, and *Standards*.



- *Standards* allow two forms of assessments:
 - Full external assessment
 - Conducted by a qualified, independent external assessor or assessment team.
 - Self-assessment with independent external validation (Self-assessment)
 - Chief Audit Executive (CAE) completes self-assessment work, evaluates conformance with the IIA's mandatory guidance, and produces a report summarizing assessment results.
 - The independent external assessor validates the work of the internal assessment.

External Assessments

- *Standard 2430, Use of “Conducted in Accordance with the Standards”*
 - Internal auditors may report that their engagements are conducted in conformance with the *Standards* only if the results of the quality assurance and improvement program support the statement.
 - Penalty for non-compliance.



Full External Assessment vs Self-Assessment



Full External Assessment

Meets requirements per *Standards*

Assessment is conducted by qualified, independent external assessor or assessment team

External assessor produces report summarizing assessment results

External assessor is responsible for documentation of assessment

Generally, higher fee than self-assessment

Self-Assessment with External Validation

Meets requirements per *Standards*

Assessment is completed by CAE and internal assessment team

CAE produces report summarizing assessment results

CAE is responsible for documentation of assessment and providing support to assessor for validation

Generally, lower fee than full external assessment

Reporting



- The content of the report for an external assessment should contain the following:
 - Objectives and scope
 - Overall conformance evaluation (i.e., Generally Conforms, Partially Conforms, or Does Not Conform)
 - Identification of any individual standards rated less than Generally Conforms, together with details of the observation/finding, recommendations for improvement, and management action plans
 - An appendix that lists all of the Standards and their individual conformance levels
 - Definition of terms used in the conformance ranking system

- The following content is also highly recommended:
 - *Executive summary*
 - *Identification of noteworthy strengths*
 - *Process improvement opportunities to help the internal audit activity further add value*
- *Standards would be assessed using the Generally Conforms, Partially Conforms, and Does Not Conform levels.*

- Generally Conforms

- *The internal audit activity achieves general conformity with a majority of the individual standards and/or elements of the Code of Ethics, and at least partial conformity to others, within the section/category.*
- *For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.*

- Partially Conforms

- *The internal audit activity partially achieves conformance with a majority of the individual standards within the section/category and/or elements of the Code of Ethics.*
- *For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.*

- Does Not Conform

- *The internal audit activity does not achieve conformance with a majority of the individual standards within the section/category and/or elements of the Code of Ethics.*
- *For the internal audit activity overall, there will be deficiencies that will usually have a significant negative impact on the internal audit activity's effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.*

Standards & Sample Test Procedures



Standards Overview

- **Attribute Standards**
 - **Purpose, Authority, and Responsibility (1000)**
 - **Independence and Objectivity (1100)**
 - **Proficiency and Due Professional Care (1200)**
 - **Quality Assurance Improvement Program (1300)**

Standards Overview

- **Performance Standards**

- **Managing the Internal Audit Activity (2000)**
- **Nature of Work (2100)**
- **Engagement Planning (2200)**
- **Communicating Results (2400)**
- **Monitoring Progress (2500)**
- **Communicating and Acceptance of Risks (2600)**

Purpose, Authority & Responsibility (Standard 1000):

Standard:

- “The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing).
- The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.”

Purpose, Authority & Responsibility (Standard 1000):

Test Procedure:

- Review the internal audit charter specifically for:
 - When it was last updated.
 - Approval of the board.
 - Formal definition of the purpose, authority, and responsibility of the internal audit activity.
 - Alignment of the internal audit activity's strategy (vision and mission) to that of the organization.
 - Reporting lines of the internal audit activity.
 - Incorporation of the mandatory nature of the Code of Ethics, the Definition of Internal Auditing, and the Standards.
 - Legislation and regulations to which the internal audit activity must adhere.
 - Statement of unrestricted access to all documents, people, and assets to perform engagements.



Independence and Objectivity (Standard 1100):

Standard:

- “The internal audit activity must be independent, and internal auditors must be objective in performing their work.”

Test Procedures:

- Identify the position of the internal audit activity within the organization by reviewing the organization chart .
- Review the internal audit activity’s policies and procedures regarding reporting of conflict of interest and review conflict of interest declarations.

Proficiency & Due Professional Care (Standard 1200):

Standard:

- “Engagements should be performed with proficiency and due professional care.”

Test Procedures:

- Review staff and management job descriptions (and any competency model or framework).
 - Determine whether job descriptions (or the competency model) provide suitable criteria of education and experience for filling internal audit positions.
 - Determine whether the current auditors meet the specified criteria of education and experience.

Proficiency & Due Professional Care (Standard 1200):

Test Procedures:

- Review planning guide information pertaining to specialized skills required by the internal audit activity and the staffing analysis (support for the current and prior year audit plans)
 - Determine whether the current internal audit activity staff possesses adequate information technology (IT) audit skills
 - Determine whether any other specialized skills or expertise (i.e., fraud detection skills, consulting skills, etc.) are required to effectively meet the unique needs of the organization
 - Evaluate whether the qualifications of any third-party providers of internal audit services used during the review period, and the type of assistance provided, were appropriate

Proficiency & Due Professional Care (Standard 1200):

Test Procedures:

- Review Supervisory Committee meeting packets to confirm that the CAE periodically presents activity reports that compare:
 - Actual performance with the Department's work schedule;
 - Expenditures with financial budgets.

Proficiency & Due Professional Care (Standard 1200):

Test Procedures:

- Assess the performance appraisal system for the internal audit activity.
 - Review the staff development policy for at least annual performance appraisals, evaluations made after each audit, measures and improvement of performance, career counseling, and development of staff.
 - Review and evaluate the performance appraisal templates.

Quality Assurance & Improvement Program (QAIP) (Standard 1300)

Standard:

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

Test Procedures:

- Obtain the policy for the QAIP and determine if it consistent with the *Standards* (1300). Where applicable, also review the most recent external assessment report.

Managing the Internal Audit Activity (Standard 2000):

Standard:

- The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.”

Test Procedures:

- Document CAE’s qualifications to direct the Department’s activities.
- Review the Department’s engagement work schedules, activity reports and financial budget for reasonableness. To the extent possible, all should be written in measurable terms. Conclude as to whether resources are efficiently and effectively employed

Nature of Work (Standard 2100):

Standard:

- “The internal audit activity must evaluate and contribute to the improvement of the organization’s governance, risk management, and control processes using a systematic, disciplined, and risk based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.”

Test Procedures:

- Review work schedules and workpapers to verify that the Department periodically assesses the state of the CU’s ethical climate and the effectiveness of the methods used to achieve the desired level of legal and ethical compliance.
- Review work schedules, audit programs and workpapers to ensure that the Department is reviewing operations and programs to determine whether they are being implemented or performed as intended.

Engagement Planning (Standard 2200):

Standard:

- “Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations. The plan must consider the organization’s strategies, objectives, and risks relevant to the engagement.”

Test Procedures:

- Select a sample of audit engagements. Verify that the following are documented in the engagement program
 - Engagement objectives;
 - Associated risks, processes and transactions to be examined;
 - The nature and extent of testing required to achieve engagement objectives.

Engagement Planning (2200):

Test Procedures:

- Confirm that a written engagement work plan that includes testing and auditing techniques and is based upon a risk assessment is developed prior to fieldwork. During field work, the plan should be expanded or altered as needed to meet audit objectives.
- Document how staff assignments are determined; should include:
 - Number and level of audit staff required for the engagement, based upon available skill sets and the project's complexity;
 - Staff training needs;
 - Utilization of external sources that possess required skill sets.

Performing the Engagement (Standard 2300):

Standard:

- “Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.”

Test Procedures:

- Based upon the results of the work paper reviews, conclude as to whether the work performed supports engagement objectives.
- If working papers are in a form of media other than paper, determine whether backup copies can be generated
- If engagement objectives include reporting on financial information, ensure that working papers document whether the accounting records agree or reconcile with such financial information

Communicating Results (Standard 2400):

Standard:

- “Internal auditors must communicate the results of engagements.”

Test Procedures:

- For the engagements sampled, determine the average amount of time that elapses between the completion of fieldwork and the audit report date.
- Review a sample of final reports to verify that:
 - They include the purpose, scope and results of the engagement;
 - Observations are developed around the attributes of criteria, condition, cause and effect;
 - Satisfactory performance is acknowledged;
 - A conclusion or opinion is clearly stated;
 - The auditor signs them. If reports are issued electronically, a signed version should be maintained in the Department.

Monitoring Progress (Standard 2500):

Standard:

- “The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.”

Test Procedures:

- Document CAE’s procedures that require management’s timely response to observations and recommendations as well as the Department’s evaluation of those responses.
- Document the methods used by the CAE to follow up on the status of management’s efforts to correct reported conditions.

Management's Acceptance of Risk (Standard 2600):

Standard:

- “When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Test Procedures:

- Review the Department's previous observations and recommendations to determine whether management has elected not to correct a reported decision. If so, verify that management has accepted responsibility for any corresponding risk and that the Supervisory Committee has been informed about management's decision

Selecting the Independent External Assessor



- Qualified assessor demonstrates competence in two areas:
 - Professional practice of internal auditing and
 - External assessment process
- Experience in organizations of similar size, complexity, sector, or industry, and technical issues.
- Independent- no real or apparent conflict of interest, and not being a part of, or under control of, the organization.

Keys to Success



Keys to Success

- Quality is a combination of:
 - The right people,
 - The right systems, and
 - Commitment to excellence



- Leaders are responsible for setting the proper tone in support of quality and continuous improvement.
- Implementation guides and Quality Assessment Manuals are available to IIA members. These guides and manuals should be reviewed periodically.

Questions?



Thank You



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