Quality Assessment
Best Practices

Association of Credit Union Internal Auditors
James Alexander, CIA, CISA, CFE
April 22, 2016
Agenda

- Background
- Standard 1300
- Benefits
- Choosing a Method for Compliance
- How to Prepare
- Execution and what to Expect
- Will you Pass?
- Common Areas Needing Improvement
- Resources
Professional Practices Framework

- International Professional Practices Framework
  - Core Principles
  - Code of Ethics
  - Standards (Attribute & Performance)
  - Definition
- Implementation Guidance
- Supplemental Guidance
Quality Standards

- 1300 Quality Assurance and Improvement Program (QAIP)
- 1310 Requirements of the QAIP
- 1311 Internal Assessments
- 1312 External Assessments
- 1320 Reporting on the QAIP
- 1321 Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”
- 1322 Disclosure of Nonconformance
Quality Standards

■ 1300 Quality Assurance and Improvement Program (QAIP)
  ■ Designed to enable an evaluation of the internal audit activity’s conformance with the IIA Standards and Code of Ethics

■ 1312 External Assessments
  ■ External Assessment such as quality assurance reviews, should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.
Quality Standards

- 1312 External Assessments
  - Qualifications are based on review team; each member of review team does not require all competencies listed by the Standard. Competency categories are 1) professional practice of internal auditing; and 2) the external assessment process.

- 1312 Use of “Conforms with International Standards for the Professional Practice of IA
  - New internal audit activities may not use language until an external assessment has been performed.
Benefits of Quality Assurance

- Do we meet professional standards?
- Can things be done better?
- Should more be done?
- Is maximum value being received for each dollar of expense?
- Can we add more value to management and the audit committee?
- Can we enhance our image, perceptions, and credibility within the organization?
Choosing a Method for Conformance

- External Assessment
- Self Assessment with validation by an Independent Validator
- Peer Review
External Assessment

Contract with outside provider to perform review, write report, and determine compliance with the Standards

- Preliminary Work
- Onsite Fieldwork
- Final Report
Self Assessment with Independent Validation

- Internal Audit Activity conducts their own Self assessment, determines compliance with the Standards and writes the report.
- Internal Audit Activity then engages an independent Validator to review documentation and perform limited testing.
- Validator concurs with report or disagrees and issues own report (opinion).
- Validator can be an external service provider or from a peer pool.
Self Assessment with Independent Validation

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Peer Reviews

- Peer reviews between three or more organizations does meet the requirements of an external quality assessment.
- Reciprocal peer reviews between two organizations would not pass the independence test.
- Contract between three (3) or more companies within the same industry or other affinity group, regional association, or other group of organizations.
Competence of Assessors and Validators

- Practice Advisory 1312-1 recommends:
  - Be a competent, certified audit professional.
  - Be well versed in the best practices of the profession.
  - Have at least three years of recent experience in the practice of internal auditing at a management level.
  - Have additional competence gained from working previously as a team member on an external quality assessment.
  - Preferred CAE, relevant technical expertise, and industry experience
Walk-Through - A 12-Point Process

1. Select and train a QA team
2. Have the CAE complete the QA self-study
3. Make a preliminary visit to the organization
4. Use customer and staff surveys
5. Perform the on-site work including:
   - Review of administrative policies and procedures
   - Consideration of enterprise risk’
   - Evaluation of risk assessment in audit planning
   - Review of working papers and final reports for selected engagements
   - Review of number and skills of internal audit staff
   - Evaluate adequacy of IT audit coverage
A 12-Point Process

6. Evaluate the internal audit activity’s effectiveness through interviews with:
   - Selected members of the board
   - Executive management
   - Operating managers
   - Internal audit staff

7. Consider other monitoring functions, and evaluate coordination of internal audit work with that of independent auditors.

8. Evaluate the internal audit activity’s conformance with IIA Standards and other relevant standards.
A 12-Point Process

9. Review quality/process improvement actions currently underway

10. Provide a summary of issues and recommendations, and hold a closing conference with the CAE and/or other requestors.

11. Draft a report, obtain comments, and issue a final report

12. Hold a follow-up executive conference (optional)
Will You Pass?

- Standards with lowest conformance
- Standards with highest conformance
- Common Recommendations
### Top 10 Standards with Lowest Conformance Level

<table>
<thead>
<tr>
<th>IIA Standards</th>
<th>Description</th>
<th>GC %</th>
<th>PC %</th>
<th>DNC%</th>
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<tbody>
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<td>Internal Assessments</td>
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<td>1310</td>
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<td>2330</td>
<td>Documenting Information</td>
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<td>2340</td>
<td>Engagement Supervision</td>
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<td>19%</td>
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<td>1300</td>
<td>Quality Assurance/Improvement Program</td>
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<td>17%</td>
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<td>2030</td>
<td>Resource Management</td>
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<td>16%</td>
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<tr>
<td>2240</td>
<td>Engagement Work Program</td>
<td>83%</td>
<td>17%</td>
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<tr>
<td>2420</td>
<td>Quality of Communication</td>
<td>85%</td>
<td>15%</td>
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<td>2010</td>
<td>Planning</td>
<td>86%</td>
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<td>2040</td>
<td>Policies and Procedures</td>
<td>87%</td>
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# Top 10 Standards with Highest Conformance Level

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<td>Disseminating Results</td>
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<td>Communicating Results</td>
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<td>0%</td>
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<td>Engagement Scope</td>
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<td>2%</td>
<td>0%</td>
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<td>Individual Objectivity</td>
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<td>1%</td>
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<td>Management’s Acceptance of Risks</td>
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<td>1200</td>
<td>Proficiency and Due Professional Care</td>
<td>97%</td>
<td>3%</td>
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<tr>
<td>2120</td>
<td>Risk Management</td>
<td>97%</td>
<td>3%</td>
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<td>1%</td>
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<td>2100</td>
<td>Nature of Work</td>
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### Conformance Level in Attribute/Performance Standards, Code of Ethics and Overall Opinion

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<th>IIA Standards</th>
<th>GC %</th>
<th>PC %</th>
<th>DNC %</th>
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<td>Performance Standards</td>
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<td>Code of Ethics</td>
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<td>1%</td>
<td>0%</td>
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<tr>
<td>Overall Opinion</td>
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<td>6%</td>
<td>0%</td>
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Top 10 Nonconformance Issues

- Standard 1311 – A Quality Assurance & Improvement Plan is not in place.

- Standard 1320 – Results of the internal QAIP are not reported to senior management & board.

- Standard 1010 – Internal Audit Charter fails to recognize Definition of IA, Code of Ethics, and Standards.

- Standard 1312 – An external assessment has not been performed in the five year time requirement.
Top 10 Nonconformance Issues

- Standard 1300 – IA Manual does not fully describe QAIP as it pertains to objectives, scope, internal and external assessment components.
- Standard 1310 – QAIP does not include both ongoing monitoring of performance.
- Standard 2240 – Audit programs do not include objectives, supervisory review of audit programs before testing, and supervisory approval of program/testing changes.
Top 10 Nonconformance Issues

- Standard 1000 – IA Charter is stale, does not reference conformance to the Code of Ethics, and/or does not reference consulting services.
- Standard 2050 – Roles and Responsibilities of assurance providers are not well-documented and coordinated to ensure resources are used efficiently.
- Standard 2020 – The annual IA planning process does not contain complete audit universe with high risk areas, followed by audit resource coverages.
Quality Assessment Resources

- Conformance Article in Internal Audit Magazine February 2016 Issue – page 33-34
- https://na.theiia.org/services/quality
- Global Audit Information Network Participation