



Establishing a Quality Assurance and Improvement Program

OVERVIEW

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.” The QAIP should encompass all aspects of operating and managing the internal audit activity—including consulting engagements—as found in the mandatory elements of the IPPF. It may also be beneficial for the QAIP to consider best practices in the internal audit profession.

Implementation Guide 1300 states, “The QAIP is 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.” Through conformance with the *Standards* and the Code of Ethics, the internal audit activity also achieves alignment with the Definition of Internal Auditing and the Core Principles.

The QAIP must include ongoing and periodic internal assessments, and external assessments by a qualified independent assessor or assessment team from outside the organization. Quality should be built *into*, not *onto*, the way the activity conducts its business—through its internal audit methodology, policies and procedures, and human resource practices. Building quality into a process is essential to validate and continuously improve the internal audit activity, demonstrating value as defined by stakeholders.

Delivering quality requires a systematic and disciplined approach as professionals. Quality does not just happen; it is the combination of the right people, the right systems, and a commitment to excellence. Building an effective QAIP is similar to establishing a total quality management program where products and services are analyzed to verify that they meet stakeholder expectations, operations are evaluated to determine their efficiency and effectiveness, and practices are assessed to confirm their conformance to standards. Maintaining an effective QAIP also requires leaders who are responsible for setting the proper tone in support of quality and continuous improvement.

Using key concepts of quality as a foundation in establishing a QAIP, the internal audit activity should consider all mandatory and recommended guidance elements of the IPPF that support:

- Conformance with the *Standards* and the Code of Ethics. It is further understood that through conformance with the *Standards* and the Code of Ethics, the internal audit activity also achieves alignment with other mandatory elements of the IPPF.
- Stakeholder satisfaction defined by expected and preferred internal audit deliverables that produce value for the organization.
- Operational effectiveness achieved by building quality “into” internal audit processes. Preventing mistakes is generally less costly than correcting mistakes.
- Continuous improvement of internal audit activities accomplished through quality initiatives identified during the quality assessment process.
- Management commitment to provide resources and tools necessary for a QAIP to succeed. Participation is expected by all members of the internal audit activity.

For the internal audit profession, it is important to ensure that internal audit activities globally maintain the highest possible standards of service delivery to the organizations they support. The IIA established the IPPF to guide the internal audit profession, and the mandatory elements of the IPPF—supported by recommended guidance—are the foundation for developing an internal audit activity’s QAIP.

THE QAIP FRAMEWORK

Standard 1300 – Quality Assurance and Improvement Program states that the CAE must develop and maintain a QAIP that covers all aspects of the internal audit activity.

Common elements of all QAIPs 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.

A framework is oftentimes used to describe the complete environment for developing and implementing the QAIP. An example of such a framework, consisting of Governance, Professional Practice, and Communication, is shown in **figure 2-1**. This framework is intended as guidance only. CAEs may develop their own QAIP structure in conformance with the *Standards*.

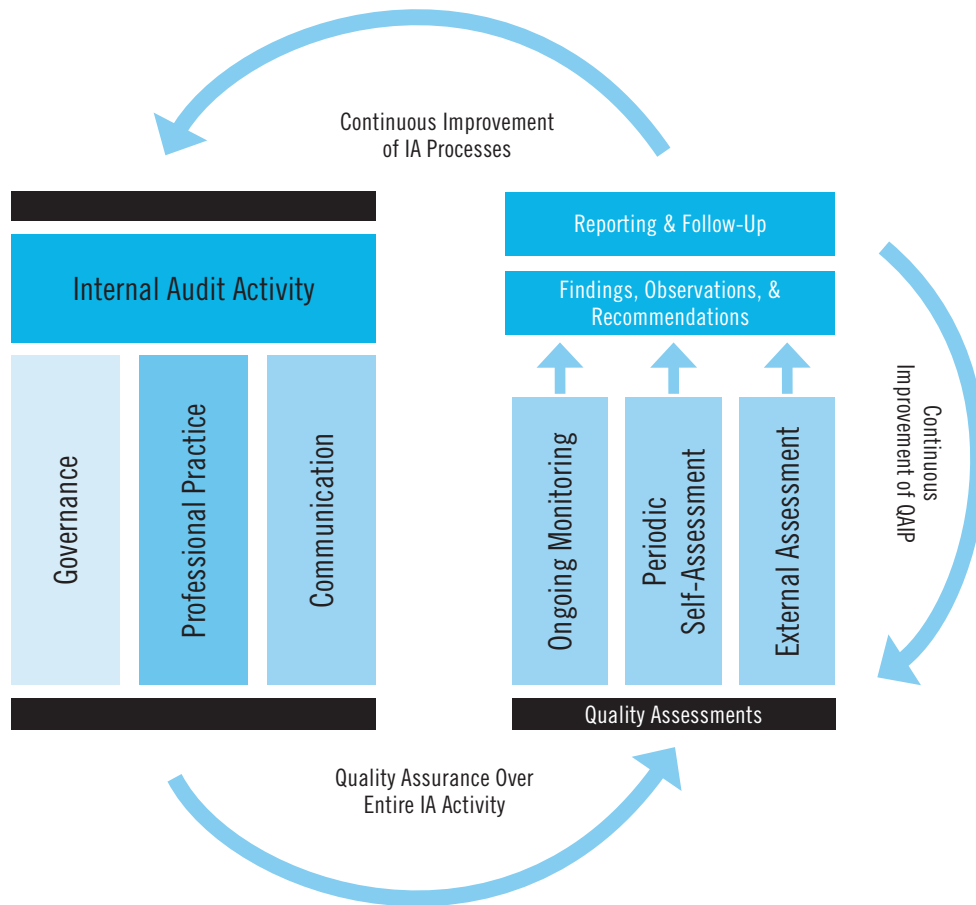


Figure 2-1: Quality Assurance and Improvement Program Framework

To construct a QAIP framework, the internal audit activity universe must be considered. This universe must include the IPPF, and may include the legal requirements of the specific country and/or industry where the activity is operating, stakeholder expectations, use of third-party subject matter experts, co-source partners for internal audit services, and the size and structure of the overall organization. Implementation Guides for the 1300 series of the *Standards* provide more detail and insight.

INTERNAL ASSESSMENTS

Two key elements of the quality assessment process comprise the internal assessment portion of the internal audit activity’s QAIP: ongoing monitoring and periodic self-assessments.

Ongoing Monitoring

What is important to remember is that a QAIP must be built *into* the processes of the internal audit activity and not *onto* the way the activity conducts its business. The most obvious internal method for continuously assessing quality is management oversight of internal audit work. Adequate supervision from the beginning through the end of the engagements is a fundamental element of a QAIP.

The Deming Cycle (or Plan-Do-Check-Act cycle) provides a possible structure in establishing the QAIP. Applying the Deming Cycle to the ongoing monitoring portion of the QAIP might look like **figure 2-2** (Ongoing Monitoring). The steps in the Deming Cycle are as follows:

1. **Plan** means establishing expectations for operating a process to meet specific objectives, goals, or deliverables.
2. **Do** means executing the process and collecting data for analysis and follow-up in the Check and Act steps of the cycle.
3. **Check** is the step where actual results are compared to expected outcomes and differences are analyzed.
4. **Act** is where feedback is provided to the operators of the process to reinforce expectations established in the previous Plan step. It is in this step that improvements to the process are identified and implemented.

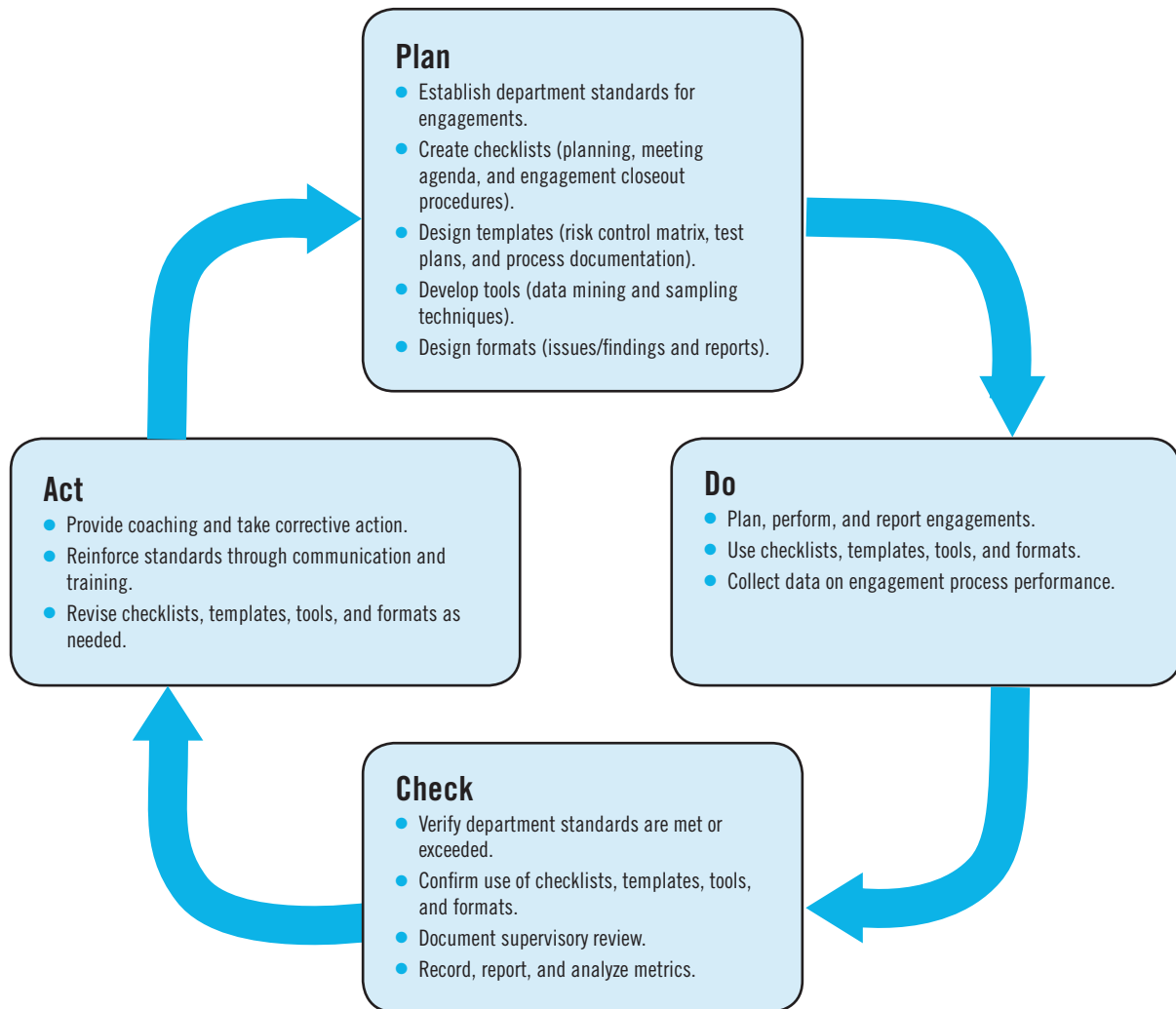


Figure 2-2: Ongoing Monitoring

Note: Examples are for discussion purposes; they are not intended as a comprehensive or complete list of activities.

The ongoing monitoring element of the QAIP would primarily address conformance with the following *Standards* since they are intended to address quality on an audit-by-audit basis and relate primarily to engagement activities:

- 2200: Engagement Planning
- 2300: Performing the Engagement
- 2400: Communicating Results
- 2500: Monitoring Progress

To this end, ongoing monitoring applies to all assurance and consulting assignments and should achieve the objectives described in Standard 2340 – Engagement Supervision, which states, “Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.” This standard also requires that appropriate evidence of supervision is documented and retained. This documentation provides assurance that ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity. In other words, a quality review must be performed for each engagement. This review provides an opportunity for ongoing evaluation, coaching, and feedback for each auditor assigned to the engagement.

As noted in Implementation Guide 1311 – Internal Assessments, ongoing monitoring mechanisms may include:

- Checklists or automation tools to provide assurance on internal auditors’ compliance with established practices and procedures and to ensure consistency in the application of performance standards.
- Feedback from internal audit clients and other stakeholders regarding the efficiency and effectiveness of the internal audit team. Feedback may be solicited immediately following the engagement or on a periodic basis (e.g., semiannually or annually) via survey tools or conversations between the CAE and management.
- Staff and engagement key performance indicators (KPIs), such as the number of certified internal auditors (CIAs) on staff, their years of experience in internal auditing, the number of continuing professional development hours they earned during the year, timeliness of engagements, and stakeholder satisfaction.
- Other measurements that may be valuable in determining the efficiency and effectiveness of the internal audit activity. Measures of project budgets, time-keeping systems, and audit plan completion may help to determine whether the appropriate amount of time is spent on all aspects of the audit engagement. Budget-to-actual variance can also be a valuable measurement to determine the efficiency and effectiveness of the internal audit activity.



Results of ongoing monitoring must be reported to the board or the audit committee at least annually. The adequacy and effectiveness of the ongoing monitoring portion of the QAIP should also be evaluated as part of periodic self-assessments described in the next section.

PERIODIC SELF-ASSESSMENTS

Implementation Guide 1311 – Internal Assessments states, “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. In contrast, ongoing monitoring is generally focused on reviews conducted at the engagement level. Additionally, periodic self-assessments address conformance with every standard, whereas ongoing monitoring frequently is more focused on the performance standards at the engagement level.”

The internal audit activity conducts periodic self-assessments to validate its continued conformance with the *Standards* and Code of Ethics. Through conformance with the *Standards* and Code of Ethics, the internal audit activity also achieves alignment with the Definition of Internal Auditing and the Core Principles. In addition, periodic self-assessments may evaluate:

- The quality and supervision of work performed.
- The adequacy and appropriateness of internal audit policies and procedures.
- The ways in which the internal audit activity adds value.
- The achievement of KPIs.
- The degree to which stakeholder expectations are met.

The QAIP should document and define a systematic and disciplined approach to the periodic self-assessment process, which may incorporate programs provided in the appendices of this manual.

Successful internal audit practice is for periodic self-assessment to be performed at least annually. This provides an annual basis for assurance that the internal audit activity continues to operate in a manner consistent with requirements of the *Standards* and the Code of Ethics. This is especially important during periods of change in the *Standards* or in the organization.

Many internal audit activities find it valuable to review and update their infrastructure, methodology, and processes on an annual basis as a component of their periodic self-assessment to ensure these elements are current with the requirements of the *Standards*. This annual periodic self-assessment process provides the board with assurance that the internal audit activity maintains the standard of performance that is required by The IIA. Recommendations for improvement should be tracked by a follow-up report, and the results of which listed at each board meeting.

The periodic self-assessment element of the QAIP would primarily address conformance with the following series of *Standards*:

- 1000: Purpose, Authority, and Responsibility
- 1100: Independence and Objectivity
- 1200: Proficiency and Due Professional Care
- 1300: Quality Assurance and Improvement Program
- 2000: Managing the Internal Audit Activity
- 2100: Nature of Work
- 2200: Engagement Planning
- 2300: Performing the Engagement
- 2400: Communicating Results
- 2500: Monitoring Progress
- 2600: Communicating the Acceptance of Risks
- Code of Ethics

The periodic self-assessment should also assess results of ongoing monitoring. Applying the Deming Cycle to these additional elements of the QAIP might look like **figure 2-3**.

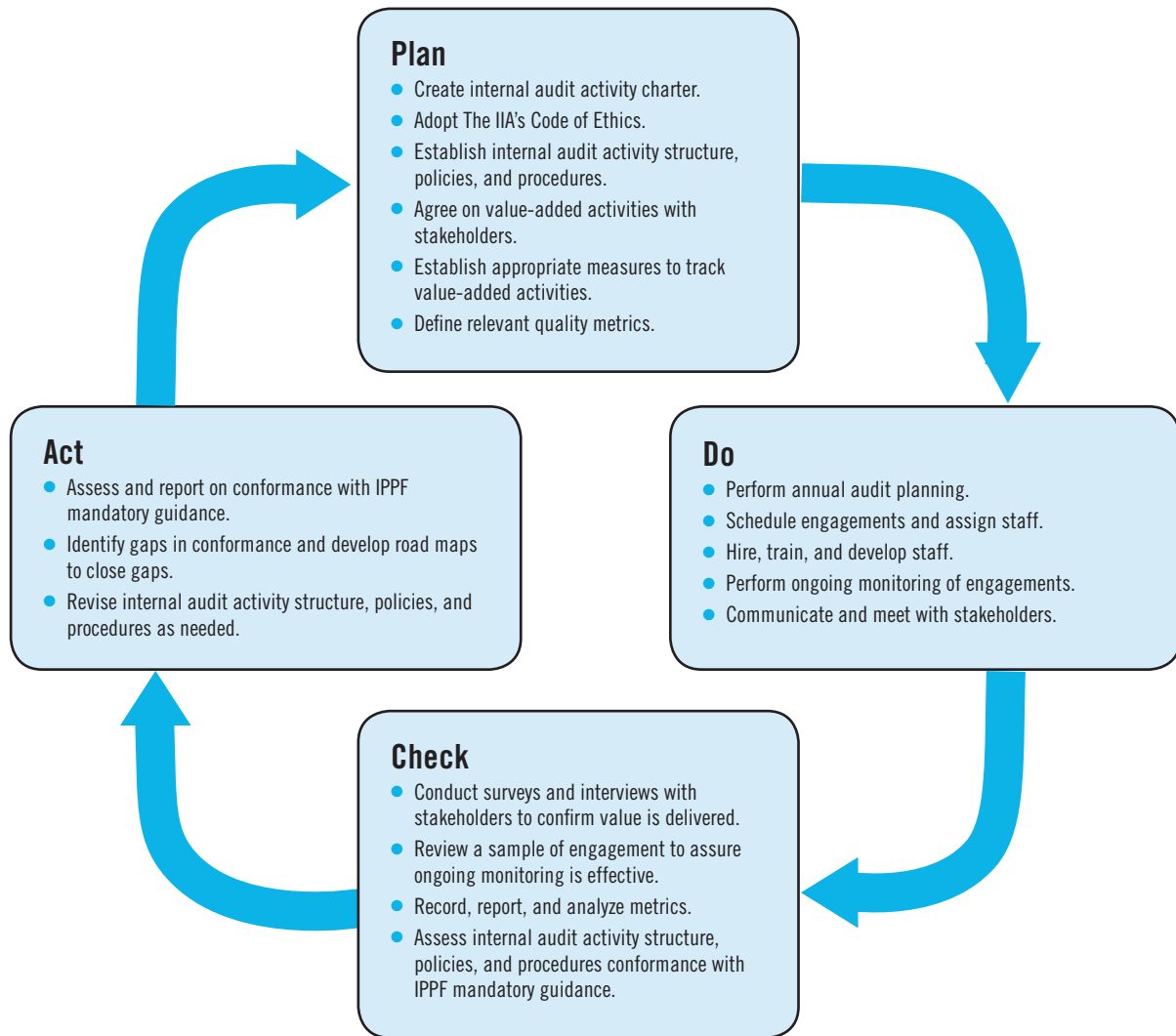


Figure 2-3: Periodic Self-Assessment

Note: Examples are for discussion purposes; they are not intended as a comprehensive or complete list of activities.

ASSESSMENT, EVALUATION, AND REPORTING

Establishing an internal assessment process, both ongoing monitoring and periodic self-assessments, coupled with the reporting of KPIs, culminates in an evaluation of the internal audit activity's QAIP, with results reported to appropriate stakeholders.

Two questions the CAE should consider when performing a QAIP evaluation are:

- Is the evaluation to be a comprehensive or partial assessment of the QAIP and the internal audit activity?
- What rating scale will be used to support a conclusion regarding the QAIP and the internal audit activity's conformance with the *Standards* and the Code of Ethics?

Answering the first question will depend on the design of the internal audit activity's QAIP and the level of resources devoted to the internal assessment process. As noted previously, a successful internal audit practice is to perform annual self-assessments; the *Standards* do not specifically state a frequency. Some CAEs may view internal self-assessments as action taken during years when an external assessment is not performed. Certain parts of the QAIP may be evaluated every year, while other portions may be evaluated less frequently. The planning guides described in appendix A and the programs described in appendix D can be used to plan and perform an internal assessment and evaluation of the QAIP and the internal audit activity.

The second question is not specifically addressed in the *Standards*, as they do not prescribe an assessment scale; however, the *Standards* do require the degree of conformance with the *Standards* and the Code of Ethics be assessed. Appendix E has an evaluation summary framework that contains conformance criteria linked with the *Standards* and the Code of Ethics, which CAEs can use to assess the conformance with these mandatory elements of the IPPE. Appendix E describes an assessment scale of Generally Conforms, Partially Conforms, and Does Not Conform.

This discussion of rating scales leads back to the concept of a maturity model, which was introduced in chapter 1. Internal audit activities in the early stages of establishing their QAIP might use a maturity model to help them achieve general conformance with the *Standards* and the Code of Ethics—confirmed by their internal self-assessment process and eventually assessed by a qualified, independent assessor or assessment team from outside the organization. Internal audit activities with mature QAIPs, where multiple internal and external assessments have been completed, might use a maturity model as a way to demonstrate different levels of quality to their stakeholders.

Standard 1320 – Reporting on the Quality Assurance and Improvement Program states, “The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.” Therefore, conclusions arising from the internal assessments of the internal audit activity’s conformance with the *Standards* and the Code of Ethics should be provided to key stakeholders as described by the standard. Results of ongoing monitoring of performance must be reported annually. Successful internal audit practice also suggests that the results of periodic self-assessment be reported at least annually.

CONTINUOUS IMPROVEMENT

While the primary focus of the QAIP must be on evaluating conformance with the *Standards* and the Code of Ethics, real value for the internal audit activity is derived from a focus on continuous improvement. Internal audit activities that have embedded the concept of continuous improvement into their operating culture and QAIP go beyond conformance with the *Standards* and the Code of Ethics and realize many additional benefits, including:

- Positioning the internal audit activity for success within the organization.
- Becoming more forward-looking in approach and experiencing greater alignment with the organization’s strategies and objectives.
- Greater adaptability in implementing incremental internal audit process changes, resulting in greater responsiveness to emerging stakeholder expectations.
- Enhanced internal audit productivity following the elimination of non-value-added activities.
- Improved internal audit staff morale resulting from a focus on process improvements where all ideas are welcome.

The concept of continuous improvement highlights the dynamic nature of establishing and maintaining an effective QAIP. Changing stakeholder priorities, shifting organizational strategies, and fluctuating environmental factors all contribute to this dynamic. CAEs should not expect “perfect” or “absolute” conformance with the *Standards* and the Code of Ethics, particularly for internal audit activities that are just beginning to establish their QAIP. Conscientious periodic self-assessments will highlight areas where the internal audit activity can get stronger.

Internal audit activities with mature QAIPs may have moved beyond general conformance, but they are still focused on continuous improvement of their processes. Organizations use a gap analysis—comparing current performance with desired future performance—to develop plans or road maps to achieve process improvements.

Reports documenting the internal assessment process of a QAIP—both ongoing monitoring and periodic self-assessment—should contain summaries of continuous improvement efforts within the internal audit activity. This focus on continuous improvement within the QAIP assures key stakeholders of the internal audit activity’s commitment to quality.

Chapter 3 outlines steps to perform ongoing monitoring and periodic self-assessment in a manner that meets the requirements of the *Standards*, the Code of Ethics, and successful internal audit practice, and fulfills the requirements of internal assessment.

EXTERNAL ASSESSMENTS

So far, this chapter has outlined steps to building an effective QAIP, focusing on the internal assessment process—ongoing monitoring and periodic self-assessment. External assessments are also an element of the QAIP as prescribed by the *Standards*; however, the *Standards* only require an external assessment to occur at least once every five years. Internal assessment components of the QAIP should be continuously active between external assessments, establishing the foundation of a successful internal audit activity.

The primary link between a QAIP and an external assessment is the reporting process originating from the QAIP. For a QAIP to be deemed effective, CAEs should expect external assessors to affirm what the CAE is measuring in regard to conformance with the *Standards* and the Code of Ethics through the periodic self-assessment process and reporting of results to key stakeholders. The CAE’s report of the periodic self-assessment may be used as a basis for assessment by an external assessor.

A secondary link between a QAIP and an external assessment is the documentation maintained by the CAE as evidence of an effective QAIP. This includes charters, policies, procedures, metrics, audit reports, annual audit plans, engagement workpapers, audit committee minutes, staff training records, etc. External assessors will want to examine relevant documentation

that describes key elements of the QAIP (see “A-0: Background Information and Document Request Checklist” in appendix A).

The decision to schedule an external assessment often results from the CAE’s requirement to perform an external assessment every five years. The CAE might consider other factors when determining specific timing and scope for this review:

- Does the CAE believe that the internal audit activity generally conforms with the *Standards* and the Code of Ethics?
- Is the documentation describing the QAIP comprehensive and complete?
- Has feedback from key stakeholders been incorporated into the QAIP?
- Have discussions with the board established additional expectations related to operational or strategic goals?

As noted in Standard 1312 – External Assessments, CAEs can choose from two methodologies for external assessments. The first approach is a full external assessment, and the second approach is an independent, external validation of the CAE’s self-assessment of the internal audit activity. Both approaches—full external assessment and independent, external validation—require that they be conducted by a qualified, independent assessor or assessment team from outside the organization. The qualified, independent assessor or assessment team must demonstrate competence in two areas: the professional practice of internal auditing and the external assessment process.

Several factors may influence the CAE’s decision in selecting an appropriate external assessment method to review the internal audit activity’s QAIP. This is an area where the board might take an active role in oversight of the QAIP as suggested in the *Standards*.

This manual reviews tools, techniques, and methods used to perform internal assessments (see chapter 3), a full external assessment (see chapter 4), or an independent validation of the CAE’s self-assessment of the internal audit activity (see chapter 5).

IMPLEMENTATION GUIDES

An implementation guide exists for each standard. The implementation guides are supplemental guidance that offers insight into conformance and application of the individual standard. Most relevant to establishing a QAIP are those implementation guides associated with the 1300 series of the *Standards*. However, all implementation guides are relevant in helping the CAE, the external assessor or assessment team, or others in evaluating conformance with the *Standards* and the Code of Ethics.

The IIA is constantly producing new supplemental guidance and modifying implementation guidance as warranted. Readers of this manual should check the Standards and Guidance section of The IIA's website for relevant guidance not listed here, and for updates to the guidance noted above.

