



Full External Assessment

OVERVIEW

Standard 1312 – External Assessments requires that an external assessment of an internal audit activity be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The objective of the external assessment is to evaluate an internal audit activity’s conformance with the *Standards* and the Code of Ethics.

Implementation Guide 1300 states, “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 for the Professional Practice of Internal Auditing.” External assessments may also focus on identifying opportunities to enhance internal audit processes, offer suggestions to improve the effectiveness of the internal audit activity, promote ideas to enhance the activity’s image and credibility, and offer operational or strategic comments. This approach embraces the successful practices of the profession and emphasizes governance, risk management, and control processes as important areas for internal auditors’ attention. External assessment recommendations focus on opportunities for continuous improvement and add value to the organization.

As noted in Standard 1312 – External Assessments, “External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation.” The full external assessment is conducted by a qualified, independent assessor or assessment team from outside the organization. The team approach involves an outside team of competent professionals under the leadership of an experienced, professional project manager or team leader. The team, on a collective basis, must demonstrate competence in the professional practice of internal auditing and the external assessment process. This chapter outlines how to conduct a full external assessment. Chapter 5 outlines how to conduct a self-assessment with independent validation.

Before the onset of the external assessment, several communications must take place between the CAE and the board. The CAE must discuss with the board the form and frequency of the external assessment. He or she must also discuss the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest. Involvement of the board is encouraged because it reduces perceived conflicts of interest between the CAE and the external assessment provider. Further guidance on qualifications and independence of the external assessment provider can be found in Implementation Guide 1312 – External Assessments.



The remainder of chapter 4 describes performing the external assessment from the perspective of the external assessment provider. The external assessment process, including planning, fieldwork, and reporting activities, are described to facilitate the execution of a full external assessment. Where appropriate, references are made to guides and programs used to document the assessment. These guides and programs are found in the appendices to this manual.

Figure 4-1 illustrates an approach to the full external assessment process.

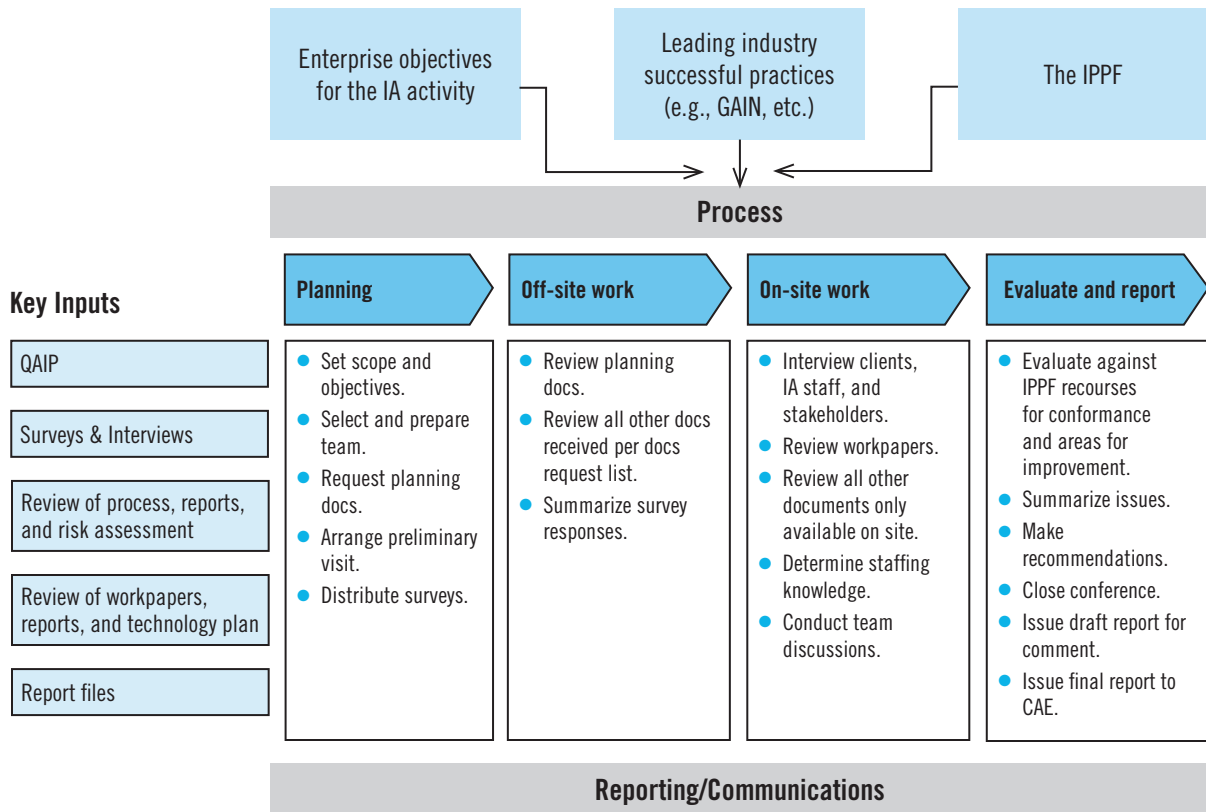


Figure 4-1: Full External Assessment Process

PLANNING

The five points of the planning process, if followed by the external assessment team leader, enhance the customer’s involvement in and satisfaction with a value-added experience:

- Set scope and objectives—agree on the scope, objectives, and timing of the full external assessment.
- Select and prepare the team—select and train (as needed) the full external assessment team.
- Request planning documents—request and review the planning guides (see appendix A) completed by the internal audit activity and clarify any questions or concerns.

- Arrange preliminary visit—conduct a preliminary visit or teleconference to gather further information, finalize the work plan, select and schedule interviews (see appendix C) with the internal audit activity’s key stakeholders and internal audit management and staff, and prepare for the on-site visit.
- Distribute surveys—distribute the Executive Leadership and Operating Management and Internal Audit Staff surveys to participants (see appendix B).

Set Scope and Objectives

The scope includes key elements:

- The internal audit activity charter that documents the purpose, authority, and responsibility of the internal audit activity and is approved by the board.
- The expectations of the internal audit activity expressed by the oversight group, executive management, and any other stakeholders.
- The entity’s control environment and the CAE’s audit practice environment.
- The focus on evaluating governance processes, enterprise risk, and assessing organizational controls in audit plans.
- The integration of internal audit into the organization’s governance process, including the combined assurance relationships and communications between the key governance groups and assurance providers involved in that process and the aligning of audit objectives and plans with the objectives of the entity as a whole.
- The IPPF and any other legal requirements laid down for the internal audit activity within the specific organization and/or country.

The objectives achieved in a full external assessment:

- Provide an opinion on the internal audit activity’s conformance with the *Standards* and the Code of Ethics.

- Assess the efficiency and effectiveness of the internal audit activity in light of its charter; its processes and infrastructure, including the quality assurance and improvement program (QAIP); the mix of knowledge, experience, and expertise; and the expectations of the board (usually represented by a committee of the board oversight body, such as an audit committee), executive management, other stakeholders and assurance providers, and the CAE.
- Consider the internal audit activity's current needs and objectives, as well as the future direction and goals of the organization. Appraise the risk to the organization if the results indicate that the internal audit activity is performing at a less than effective level or is not in conformance with one or more of the *Standards*.
- If applicable, identify opportunities and offer ideas to the CAE and staff for improving the effectiveness of the internal audit activity, thereby raising the value added to management and the audit committee.

The objectives listed can be modified and others can be added to satisfy the needs of customer organizations.



Select and Prepare the Team

As noted in the Interpretation to Standard 1312 – External Assessments, “*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.*”

- Standard 1312 – External Assessments specifies that the full external assessment must be conducted by a qualified, independent assessor or assessment team from outside the organization.
- Qualified individuals are persons with the technical proficiency, internal audit experience, business experience, and educational background appropriate for

the audit activities to be assessed. This could include internal auditors from outside the organization, independent consultants, or independent outside auditors, but preferably not the external audit firm that audits the organization's financial statements, or consultants providing any co-sourcing for the entity. "From outside the organization" means not a part of, or under the control of, the corporate entity.

Following is a list of the possible qualifications and criteria by which the CAE can assess the competence of a full external assessment team. Specific engagements may require additional unique qualifications.

- **Experience** (reference Standard 1312 and Implementation Guide 1312 – External Assessments)
 - The full external assessment team should comprise personnel of at least managerial level.
 - The team leader should have experience that is comparable to that of the CAE of the internal audit activity being assessed.
 - The team leader should be a competent, certified internal audit professional.
 - Each team member should have a thorough understanding of current internal audit practices and the IPPF and its application, sound judgment, and good communication and analytical skills.
 - The full external assessment team should possess or have ready access to all of the necessary technical expertise (e.g., governance, IT, risk management, internal audit attributes, management consulting, and internal audit management).
 - Knowledge of the organization's industry, service, or internal audit activity by at least one team member is an important consideration to be evaluated by the customer.

- **Objectivity**
 - The full external assessment team should objectively consider the expectations of the audit committee, executive management, and the CAE; the audit structure; and the policies and procedures of the organization and the internal audit activity.
 - To ensure freedom from bias in the full external assessment, there should not be any relationship, either directly or indirectly, between the organization and the full external assessment team that is, or appears to be, a conflict of interest. Such relationships could significantly negate the benefits of the full external assessment.

Request the Planning Documents Completed by the Internal Audit Activity

- The full external assessment process becomes easier when planning documentation is completed by the internal audit activity before the on-site visit by the team. The team leader requests relevant documentation from the CAE to enable work to begin on the full external assessment prior to the on-site visit (see appendix A).
- A comprehensive list of planning documentation necessary for the full external assessment is provided to the CAE for completion, as well as survey invitations to be responded to by executive leadership, operating management, and internal audit staff (see appendices A and B).



Arrange a Preliminary Visit (or Teleconference)

The full external assessment team leader should arrange a preliminary visit or teleconference with the CAE to:

- Meet the CAE and other staff that may be assisting the team during the on-site visit.

- Clarify any misunderstandings regarding the planning documentation (see appendix A).
- Ensure that all documents requested per the checklist can be provided (see appendix A).
- Ensure that there are no misunderstandings regarding the time, venue, scope, and objectives of the full external assessment.
- Identify the executive leadership, operating management, internal audit activity staff, and other key stakeholders with whom meetings will be arranged (see appendix C).
- Agree on the list of participants for the surveys: executive leadership, operating management, and internal audit activity staff (see appendix B).

The full external assessment team leader should keep minutes (or a summary) of the meeting for later attention and impressions of the organization.



Distribute Surveys

Distribute the Executive Leadership and Operating Management and Internal Audit Staff surveys to participants. (The purpose and use of the surveys are fully discussed in appendix B.)

OFF-SITE WORK (TO BE COMPLETED PRIOR TO ON-SITE VISIT)

- The full external assessment team leader should review the planning documentation and all planning guides and documents noted on the document request list provided by the CAE before visiting the organization. This will help to plan the work outlined in the programs that will be performed on site (see appendices A and D).
- The CAE should complete the two surveys and provide his or her best assessment of how executive leadership, operating management, and the internal

audit activity staff will respond to each statement. Comparing the CAE's responses with survey results from the executives, operating managers, and internal audit staff will provide the full external assessment team with possible opportunities for improvement and areas of strength for the internal audit activity (see appendix B).

Summarize the survey results for feedback to the CAE. Areas of significant divergence between CAE responses and those of survey participants should be investigated by the full external assessment team during their interviews, adjusting interview guides where necessary as discussed in appendix C. The full external assessment team (perhaps with input from the CAE during the on-site visit) will need to interpret whether survey information has identified positive or negative ratings or trends. The CAE should be encouraged to use this information during training sessions with internal audit activity staff to emphasize positive results and highlight areas that need improvement.

ON-SITE WORK



Review appendix D to become familiar with descriptions and instructions for completing the four program segments that follow the same sections that were used in the planning guides, survey guides, and interview guides: Internal Audit Governance (D-1), Internal Audit Staff (D-2), Internal Audit Management (D-3), and Internal Audit Process (D-4).

On-site work is the most comprehensive element of a quality assessment and includes:

- Interview selected members of the board (audit committee), executive management, operating managers, and internal audit management and staff, and focus on organizational risks, objectives, and the internal audit activity's effectiveness for staying current and adding value, with respect thereto. This is one of the most valuable on-site activities. Interviews allow for in-depth exploration of issues raised by survey results, and the perceptions gathered from interviews should be investigated further and corroborated whenever possible, complete with hard evidence. It is best to conduct these interviews at the beginning of the on-site visit, but they may continue throughout the visit to accommodate the busy schedules of executive management (see appendix C).

- Consider the work of other monitoring and assurance functions. Determine if any reliance is placed on the work of other assurance functions and the mechanisms in place to support this reliance.
 - Determine if the CAE is responsible for other areas beyond internal auditing; and if so, the mechanisms in place to actively manage the actual or perceived impairments to independence or objectivity this might cause.
 - Review the internal audit activity's audits and consulting engagements, reports, and supporting documentation and its administrative and operating policies, practices, procedures, and records.
- Determine if the staffing knowledge and skills, especially in IT, risk assessment, controls monitoring, interaction with governance participants, successful practices, and other areas, will pinpoint evidence of continuous improvement.
 - Review reports and communicate with management and the board (audit committee) to assess the extent that the internal audit activity meets objectives and adds value.
 - Review and assess the coordination of the internal audit activity with the work of the independent auditors.
 - Evaluate the internal audit activity's conformance with the *Standards* and Code of Ethics and other relevant policies and procedures,
 - Review the quality/process improvement actions currently underway and planned for the near term. Also consider successful practices appropriate to the organization's environment.
- The on-site process is a cumulative experience for the team. Therefore, frequent discussions are held and information is assessed to offer practical suggestions reflecting the current thinking of the profession.

The time spent for on-site work should be determined by such factors as the size of the internal audit activity, workpaper reviews, and interview schedules. On-site work typically lasts for one to two weeks, depending on the scope of work and the objectives of the full external assessment, and the size, geographic dispersion, and structure of the internal audit activity.

EVALUATE AND REPORT

See appendix E for a discussion of the evaluation process, including rating scales.

Evaluate Against the IPPF

- The most important aspect of the full external assessment is the team's evaluation of the internal audit activity's conformity with the *Standards* and the Code of Ethics, its adherence to its charter, the extent of its adoption of successful practices, and its program of continuous improvement. These evaluations may also identify additional opportunities for continuous improvement. This process is the culmination of the full external assessment team's analysis of surveys, interviews, and documentation.
- As appropriate, the full external assessment team will provide the CAE with recommendations for the internal audit activity to enhance conformance with the *Standards* and the Code of Ethics, add value for clients, and be a catalyst for positive change in the organization. Finally, the full external assessment team will exercise its professional judgment to render an opinion as to the level of conformance with the *Standards* and the Code of Ethics by the internal audit activity.



Summary of Issues, Recommendations, and Closing Conference

See appendix E for a discussion that summarizes the collective view of the assessor or assessment team related to conformance with the *Standards* and the Code of Ethics. It provides documentation of the results of all work performed and documented in the Planning Guides (appendix A), Survey Guides (appendix B), Interview Guides (appendix C), and Program Guides (appendix D). Appendix E documents the basis for the reporting of external assessment results. Items that should be considered include:

- Issues should be brought to the attention of the CAE and discussed as appropriate as they come up throughout the full external assessment. The closing

conference should be regarded as an opportunity to summarize and formalize the views of the full external assessment team and the CAE.

- The full external assessment team's evaluation process emphasizes successful practices and the issues that require attention. It is desirable to prepare a written summary of the successful practices, observations, and recommendations for those attending the closing conference. This written summary provides the team leader and team members with a framework for the closing conference.
- The CAE, with advice from the full external assessment team leader, will decide who will attend the closing conference. Since the individual observations should have been discussed with internal audit management throughout the full external assessment, the closing conference should hold no surprises. It should be an orderly discussion of the significant issues, conclusions, and recommendations. It also provides the CAE with an opportunity to comment on the observations and recommendations.



Reporting

- A draft report is prepared either before or after the closing conference (see appendix F). When the full external assessment team leader completes the draft, copies are sent to the team for comment within a specific time frame. Comments are considered and, as appropriate, incorporated into the draft report before it is sent to the CAE. The CAE is asked to respond to the recommendations and provide an action plan.
- The final report, in conjunction with the CAE's response or action plan, will typically be addressed to the CAE with the expectation that copies will be distributed to representatives of the board (the chair of the audit committee or other internal audit oversight body of the board) and the executives to whom the CAE reports. Copies of the full external assessment report should also be addressed to the individuals or groups initiating the full external assessment.

Frequently Asked Questions

- 1. Question:** I've heard the term "point-in-time assessment." What does that mean and what are the implications for a full external assessment?
 - Answer: "Point in time," in the context of a full external assessment, means that the conclusions drawn and reported are as of a specific date—typically the last date of on-site fieldwork by the full external assessment team. This allows the team to take into consideration the results and discussions of the closing conference with the internal audit activity prior to finalizing their conclusions. A point-in-time assessment places greater reliance on data nearer that time. For example, workpapers reviewed for projects completed nearer the point in time provide stronger evidence of performance than workpapers for engagements from several years prior to the full external assessment. It is critical to remember that while a full external assessment report may be issued as of a point-in-time assessment, the QAIP is a continuous process that incorporates ongoing monitoring of performance and periodic assessment to ensure that levels of conformance with the *Standards* and the Code of Ethics continue to be strengthened during periods between external assessments.

QUALITY ASSESSMENT PROCESS MAP

The Quality Assessment Process Map for a full external assessment, indicating the division of work between the internal audit activity and the independent external assessor or assessment team, is shown on page 52. Note that conducting surveys and scheduling interviews require close coordination between the internal audit activity and the independent external assessor.

QUALITY ASSESSMENT PROCESS MAP

Full External Assessment

