Quality Assessment Review – An Overview

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What is a Quality Assessment Review (QAR)?

- A Quality Assessment Review (QAR) is an independent review of the internal audit (IA) activity of an entity
- A QAR is designed to enable an evaluation of the IA activity's conformance with the definition of internal auditing and the Institute of Internal Auditor's (IIA) Standards (the Standards) and Code of Ethics

The QAR answers the question:

"Who audits the auditors?"

Why Perform a QAR?

IIA Standard 1300:

- The IIA's Professional Practices Framework mandates that IA departments develop and maintain a quality assurance and improvement program that covers all aspects of the IA activity

IIA Standard 1310:

- The program must include both internal and external assessments

Why Perform a QAR?

IIA Standard 1312:

- External assessments must be conducted at least once every 5 years by a qualified, independent reviewer or review team from outside the organization. The Chief Audit Executive must discuss with the Board:

  - The need for more frequent external assessments
  - The qualifications and independence of the external reviewer or review team, including any potential conflicts of interest

  NOTE:

  Depending on industry, regulators/industry standards may require the IA activity to undergo a QAR more frequently.

What's In It For Me?

Potential Benefits to the Organization

- Enhance credibility of the IA activity within the organization

- Manage internal audit costs

- Improve focus on core competencies

- Produce a more viable and effective IA activity

- Gain access to methodologies and resources

- Strengthen communications (internal and external)

- Enhance objectivity and independence through the review

Types of QAR Performed

External Quality Assessments (Standard 1312)

- Must be performed at least once every five years

- Must be performed by a qualified reviewer or review team independent of the organization

- Can be either a full independent quality assessment or independent validation of internal quality assessment

Types of QAR Performed

Internal Quality Self-Assessment with Independent Validation

- IA actively performs a self-assessment to determine compliance with IIA Standards

- Self-assessment must be independently validated

- Independent validation will consist of interviews with senior management, members of the board, audit committee and IA

- Limited tests are performed of the self-assessment and the results to validate the results

- An opinion is expressed as to the adequacy of the self-assessment process and the indicated level of the IA activity's conformity with the Standards

Types of QAR Performed

External Quality Assessment

- A qualified, independent third party performs a full external assessment of the IA Activity

- All the following are compared to IIA Standards to determine the level of conformance

  - IA Alignment with Corporate Objectives
  - IA Methodologies, Tools and Techniques
  - Communications and Reporting
  - Stakeholder Expectations

  - Risk Assessment and Planning
  - IA's Execution of the Audit Plan
  - Use of Technology
  - Human Capital

Qualifications to Perform

- Reviews must be performed by a qualified reviewer or review team consisting of:
  - Former Chief Audit Executives
  - Experienced internal auditors
  - Internal auditors accredited by the IIA to perform QAR's
- Review team or reviewer must be independent of the IA activity
- The IIA offers training for internal auditors who wish to be accredited to perform QAR's

The Process

Objectives of a QAR

- Assess the current IA activity, and identify current strengths and opportunities for improvement
- Assess the positioning of the IA activity within the organization
- Evaluate the alignment of IA activities with key stakeholder expectations
- Provide benchmarking against the Standards and leading practices

The Process

External Quality Assessment

The objective is to:

- Assess the efficiency and effectiveness of the IA activity
- Provide an opinion on the IA activity's conformance to the spirit and intent of the Standards
- Identify opportunities and offer ideas to the CAE and staff for improving their performance

The Process

- Interviews with senior management, the board and audit committee chair, and IA staff

- Audit customer surveys (senior management, Board, Audit Committee), staff surveys and summaries are prepared, and results evaluated

- On-Site Procedures
  - Most comprehensive element of a QAR
  - Consists of a review and comparison of the IA activity's audits, reports, supporting documentation, administrative and operating policies, staffing skills, risk assessment and controls monitoring and successful practices to IIA Standards

The Process

The process answers the following questions:

- Does the IA Activity comply with the Standards and the Code of Ethics?

- Do they have a charter that defines its purpose, authority, and responsibility, and is it approved by the Board?

- Does the IA Activity report to a level within the organization that allows it to accomplish its mission?

- Does the IA Activity coordinate activities with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and efficiency?

The Process

The process answers the following questions (cont'd):

- Do you need to optimize the cost of an internal audit function?

- Has your business implemented, upgraded?

- Are your planning, fieldwork, reporting monitoring processes effective and efficient?

- Do your people/resource have the right skill sets and capabilities needed to audit the control environment?

- What is your people strategy? (Recruitment, retention, specialized skills, succession planning)

The Process

The process answers the following questions:

- How do you address emerging needs and trends?

- How flexible are your core competencies to respond timely to changing business conditions?

- What infrastructure is in place to effectively manage and monitor the internal audit activity?

Reporting the Results

IIA Standard 1320 –

The results of a quality assurance improvement program must be communicated by the Chief Audit Executive to senior management and the Board.

- A report is issued and an opinion rendered:
  - Generally conforms with the Standards
  - Partially conforms with the Standards
  - Does not conform with the Standards
- Communicate challenges and lessons learned:
  - Performance
  - Benchmarking
  - Subject matter professional assistance
  - Opinion

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The New Global Internal Auditing Standards
Considerations for Implementing

Overview of the Global Internal Audit Standards

The new standards:

- Provide a framework for performing a broad range of value-added internal auditing.

- Delineate basic principles that represent the good practice of internal auditing.

- Establish the basis for the evaluation of internal audit performance.

- Foster improved organizational processes and operations.

- Outline specific considerations for performance and conformance with the Standards and offer examples of evidence for how to document the fulfillment of requirements.

Overview of the Global Internal Audit Standards

Now Available	Feb 2024	Mar 2024	Q2-Q4 2024	Q1 -Q2- 2025
• Global IA Standards (basic pdf) • Condensed Version of IA Standards • Report on the Standard-setting and Public Comment Processes for the Global Internal Audit Standards • Institute and chapter leader graphics, presentations, resources	• Tools: 2-Way Standards and Glossary Mapping • Tool: Model Internal Audit Charter • Webinar: What the New Standards Mean to Quality Assessments • Updated Learning Library • Publication: Insights to Quality • Internal Auditor Magazine special	• Tools: For CAE Communication with board and senior management • Tool: Key Standards Changes Summary • GAM Conference pre-conference workshop & multiple sessions • Global Internal Audit Standards e-book • Updated Practice Guides	• Translated Standards • QAR readiness tool • Topical Requirements on Cybersecurity • Global Internal Audit Standards (The Redbook) hardcopy • Quality Assessment Manual • International Conference Workshop • New GTAG & Practice Guide	• Standards effective 1/9 • CIA exam: no changes before May 2025 • Updated IA Practitioner Exam • New Topical Requirements – issued for public comment, followed by release

Overview of the Global Internal Audit Standards

Five mandatory elements will remain from current framework

- Mission of Internal Audit
- Definition of Internal Auditing
- Core Principles for the Professional Practice of Internal Auditing
- Code of Ethics
- Standards

New framework will be structured as

- 5 Domains
- 15 Principles

Overview of new Global Internal Audit Standards

- Five Domains
  - Domain I: Purpose of Internal Auditing
  - Domain II: Ethics and Professionalism
  - Domain III: Governing the Internal Audit Function
  - Domain IV: Managing the Internal Audit Function
  - Domain V: Performing Internal Audit Services

Overview of new Global Internal Audit Standards

- **Principle 1 Demonstrate Integrity (Domain II)**
  - Standard 1.1 Honesty and Professional Courage
  - Standard 1.2 Organization's Ethical Expectations
  - Standard 1.3 Legal and Ethical Behavior

- **Principle 2 Maintain Objectivity (Domain II)**
  - Standard 2.1 Individual Objectivity
  - Standard 2.2 Safeguarding Objectivity
  - Standard 2.3 Disclosing Impairments to Objectivity

- **Principle 3 Demonstrate Competency (Domain II)**
  - Competency
  - Continuing Professional Development

- **Principle 4 Exercise Due Professional Care (Domain II)**
  - Conformance with the Global Internal Audit Standards
  - Due Professional Care
  - Professional Skepticism

Overview of new Global Internal Audit Standards

- **Principle 5 Maintain Confidentiality (Domain II)**
    - Standard 5.1 Use of Information
    - Standard 5.2 Protection of Information

- **Principle 6 Authorized by the Board (Domain III)**
    - Standard 6.1 Internal Audit Mandate
    - Standard 6.2 Internal Audit Charter
    - Standard 6.3 Board and Senior Management Support

- **Principle 7 Positioned Independently (Domain III)**
    - Standard 7.1 Organizational Independence
    - Standard 7.2 Chief Audit Executive Qualifications

- **Principle 8 Overseen by the Board (Domain III)**
    - Standard 8.1 Board Interaction
    - Standard 8.2 Resources
    - Standard 8.3 Quality
    - Standard 8.4 External Quality Assessment

Overview of new Global Internal Audit Standards

- **Principle 9 Plan Strategically (Domain IV)**
  - Standard 9.1 Understanding Governance, Risk Management and Control Processes
  - Standard 9.2 Internal Audit Strategy
  - Standard 9.3 Methodologies
  - Standard 9.4 Internal Audit Plan
  - Standard 9.5 Coordination and Reliance

- **Principle 10 Manage Resources (Domain IV)**
  - Standard 10.1 Financial Resource Management
  - Standard 10.2 Human Resources Management
  - Standard 10.3 Technological Resources

- **Principle 11 Communicate Effectively (Domain IV)**
  - Standard 11.1 Building Relationships and Communicating with Stakeholders
  - Standard 11.2 Effective Communication
  - Standard 11.3 Communicating Results
  - Standard 11.4 Errors and Omissions
  - Standard 11.5 Communicating the Acceptance of Risks

Overview of new Global Internal Audit Standards

- **Principle 12 Enhance Quality (Domain IV)**
  - Standard 12.1 Internal Quality Assessment
  - Standard 12.2 Performance Measurement
  - Standard 12.3 Oversee and Improve Engagement Performance
  - Standard 12.4 Internal Audit Plan
  - Standard 12.5 Coordination and Reliance

- **Principle 13 Plan Engagements Effectively (Domain V)**
  - Standard 13.1 Engagement Communication
  - Standard 13.2 Engagement Risk Assessment
  - Standard 13.3 Engagement Objectives and Scope
  - Standard 13.4 Evaluation Criteria
  - Standard 13.5 Engagement Resources
  - Standard 13.6 Work Program

Overview of new Global Internal Audit Standards

- **Principle 14 Conduct Engagement Work (Domain V)**
  - Standard 14.1 Gathering Information for Analyses and Evaluation
  - Standard 14.2 Analysis and Potential Engagement Findings
  - Standard 14.3 Evaluation of Findings
  - Standard 14.4 Recommendations and Action Plans
  - Standard 14.5 Engagement Conclusions
  - Standard 14.6 Engagement Documentation

- **Principle 15 Communicate Engagement Results and Monitor Action Plans (Domain V)**
  - Standard 15.1 Final Engagement Communication
  - Standard 15.2 Confirming the Implementation of Recommendations or Action Plans

Challenges and Opportunities

- Challenges

  - Time and resources

  - Board buy-in

  - Cost to implement standards

- Opportunities

  - Update internal audit approach

  - Get staff buy-in and assistance in adopting

  - Fresh start with management

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