

2018 IIA INDONESIA NATIONAL CONFERENCE

Nurturing Agile Internal Auditors in Disruptive Times

Quality Assurance Improvement Program



Internal Auditing



QUALITY
Ensuring Excellence

- Independent
- Objective
- Assurance and consulting activity
- Adds value
- Improves operations
- Helps accomplish objectives

2018 NATIONAL
CONFERENCE
Indonesia Bali, 28-29 August



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Professionalism



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- Adherence to the Standards.
- Compliance with the Definition of Internal Auditing and the Code of Ethics.
- Competency, evidenced by certification (CIA).
- Maintaining a “Quality Assurance and Improvement Program.”
- Relevance, ongoing professional development.

Internal Auditing & Quality



QUALITY
Ensuring Excellence

- Nobody in the organization better understands the need for independent and objective assessment of quality than do the internal auditors.
- They audit, review, and assess the work of others on a daily basis. They understand the great value this can bring to the entire organization.

Internal Auditing & Quality



QUALITY
Ensuring Excellence

- The International Standards for the Professional Practice of Internal Auditing mandate that the internal audit activity be assessed for quality.
- This presentation explains why quality is so important to internal audit professionalism and performance.

Internal Auditing & Quality



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Why is a quality assurance and improvement program necessary?

As an organization grows, its operations undergo refinement, and its internal processes change and evolve, its quality monitoring process must keep pace.



Internal Auditing & Quality



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What does a quality assurance and improvement program include?

The required elements of the program are periodic internal and external quality assessments, ongoing internal monitoring, and assurance that the internal audit activity is complying with the *Standards*, the definition of internal auditing and the Code of Ethics. (**Standards 1300 & 1310**)



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What is a quality assessment?

A quality assessment, or QA, evaluates compliance with the *Standards*, the definition of internal auditing, the Code of Ethics, the internal audit & audit committee charters, the organization's governance, risk and control assessment, and the use of successful practices.



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Which organizations should obtain QAs?

All internal audit departments, even those outsourced or co-sourced, must undergo internal & external quality assessments.



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If an organization has not yet established a Quality Assurance and Improvement Program, how can it start the process?

A good first-step is to assess the level of compliance with the definition of internal auditing, the *Standards* and the Code of Ethics.



(Practice Advisory 1300-1)

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How do internal and external QAs differ?

External Assessments require an outside team of independent reviewers to evaluate compliance with the *Standards, the definition of internal auditing, the Code of Ethics, the use of successful practices* and the efficiency and effectiveness of the internal audit activity.



(Practice Advisory 1312-1&2)

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What are the benefits of an independent external QA?

It allows the internal auditors to state that their activities are conducted “in accordance with the *International Standards for the Professional Practice of Internal Auditing*.”



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When must an internal audit shop have an external QA?

It is mandatory that every internal audit activity have an **external quality assessment at least every five years** to be in compliance with the *Standards (Standard 1312)*.



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How is an external QA conducted?

There are various acceptable methods of performing external QAs. One typical methodology includes advanced preparation, on-site activities, and the reporting process.



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What are appropriate external QA approaches?

Regardless of an organization's industry or the internal audit activity's complexity or size, there are two approved approaches for external QAs.



- Practice Advisory 1312-1 External Assessments
- Practice Advisory 1312-2 Self Assessment with Independent Validation

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What are the selection criteria for external QA providers?

At a minimum, the QA provider should use a methodology that includes compliance with the *Standards, definition of internal auditing and the Code of Ethics* as the benchmark for quality.



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How do peer reviews fit into the QA process?

External quality assessments or self assessments can be conducted through peer reviews instead of utilizing an external service providers.



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What are the repercussions of not acquiring an external QA?

If the internal audit activity does not acquire the external assessment at least every five years, it is forbidden to use the phrase, “conforms with the *International Standards for the Professional Practice of Internal Auditing*,” in its internal audit charter or reports.



Practice Advisory 1321-1

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What if the results of an external QA are negative?

The organization should create an action plan that specifically addresses each opportunity for improvement cited in the assessment. The CAE must disclose nonconformance and the impact with Senior Management and the board.



(Standard 1322)

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What is the next step to the process if the results of an external QA are positive?

Once the QA has been completed; the CAE must communicate the results to the senior management and the board. (**Standard 1320**)



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What is the next step to the process if the results of an external QA are positive?

Once the QA has been completed; the CAE must communicate the results to the senior management and the board. (**Standard 1320**)



Maturity Model Levels to Quality

Level 1: Introductory

Level 2: Emerging

Level 3: Established

Level 4: Progressive

Level 5: Advanced

Level 1

- Fairly new shop or new CAE adopting the IIA *Standards*
- Organization lacks understanding of importance
- Senior Management/Board don't understand value
- IAA has not established a QAIP
- Not complying with requirements

Level 2



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- The QAIP must include periodic and ongoing self-assessments
- Compliance monitoring with the *Standards* is in place
- Annual presentation of self assessment results is complete to senior management and Audit Committee

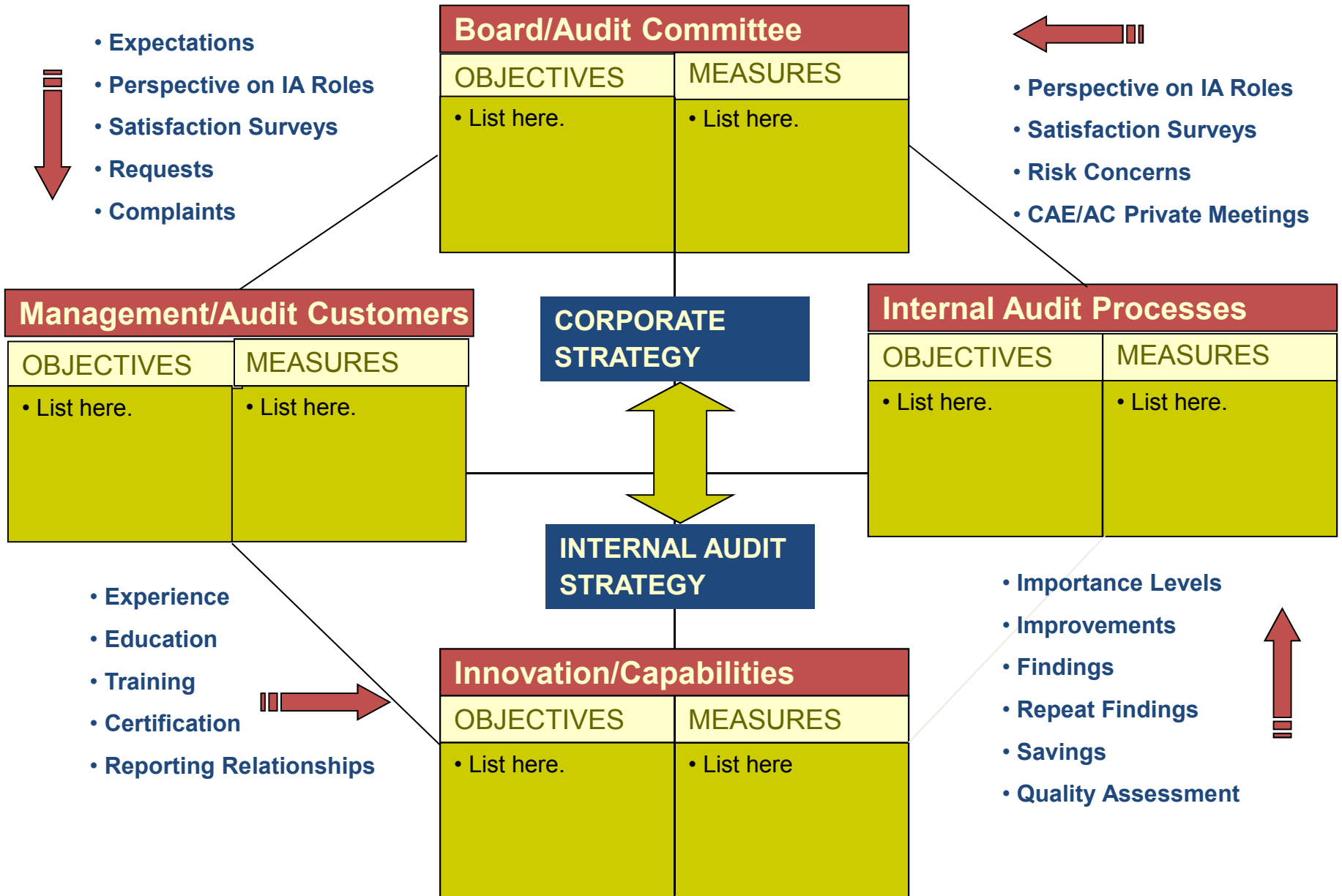
Level 3



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- Annually obtain internal independent validation of IAA ongoing self-assessment
- CAE, Senior Management & Audit Committee support and involved in Quality Assessment process
- Committed to obtaining an external independent validation every five years.

Balanced Scorecard for Internal Auditing



Level 4



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- QAIP is now a well developed, defined and documented program
- IAA is well recognized within the organization as value added
- IAA has an External QA conducted every five years

Level 5



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- IAA has a active and fully integrated Quality Assurance & Improvement Program
- External QAR are performed every three years
- All IAA staff have certification and rigorous continuing education