Establishing a Quality Assurance and Improvement Program

OVERVIEW

IIA Practice Guide, Quality Assurance and Improvement Program, states that "Quality should be built in to, and not on to, the way the activity conducts its business—through its internal audit methodology, policies and procedures, and human resource practices." Imbedded in this process of building quality is the concept of value as defined by stakeholders and the commitment of the internal audit activity to deliver that value to its stakeholders.

The practice guide further states, "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 Quality Assurance and Improvement Program (QAIP) is similar to establishing a total quality management program where products and services are analyzed to verify 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.

Using key concepts of quality as a foundation in establishing a QAIP, the internal audit activity should consider:

- Stakeholder satisfaction defined by expected and preferred internal audit deliverables that produce value for the organization.

- Operational effectiveness achieved by building quality "in to" internal audit processes, as the cost of preventing mistakes is generally less than the cost of 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 assure that internal audit activities globally maintain the highest possible standards of service delivery to the organizations they support. The Institute of Internal Auditors (IIA) established the International Professional Practices Framework (IPPF) to guide the internal audit profession, and the mandatory guidance portion of the IPPF is the foundation for developing an internal audit activity's QAIP.

THE QAIP FRAMEWORK

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

Common elements of all QAIPs include:

- All facets of the internal audit activity.

- An evaluation of conformance with the Definition of Internal Auditing, the Code of Ethics, and The IIA's *International Standards for the Professional Practice of Internal Auditing* (*Standards*).

- An appraisal of the efficiency and effectiveness of the internal audit activity.

- Identification of opportunities for improvement.

A framework is the complete environment for developing and implementing the QAIP. IIA Practice Guide, Quality Assurance and Improvement Program, has documented a program-based framework consisting of Governance, Professional Practice, and Communication. See figure 2-1. This framework is intended as guidance only. CAEs may develop their own QAIP structure in conformance with the *Standards*.
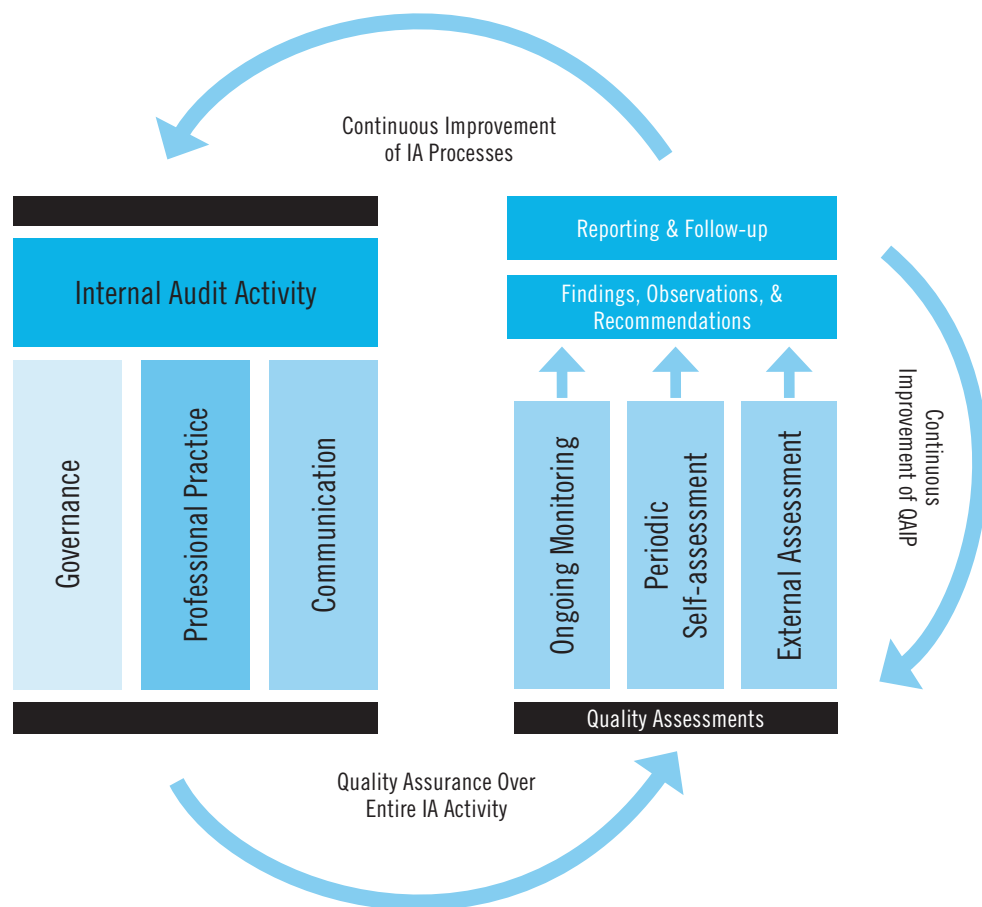
Figure 2-1: Quality Assurance and Improvement Program (QAIP) Framework

To construct a QAIP framework, the internal audit activity universe must be considered. This universe may include the IPPF, legal requirements of the specific country and/or industry where the activity is operating, stakeholder expectations, specialists being contracted in, co-source partners for internal audit services, and the size and structure of the overall

organization. IIA Practice Advisory 1310-1: Requirements of the Quality Assurance and Improvement Program provides more detail.

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 procedures of the internal audit activity and not *onto* the way the activity conducts its business. As noted in IIARF publication *Implementing the IPPF*, 3rd edition, "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 engagements is the most fundamental element of a quality assurance program…"

As noted in the practice guide Quality Assurance and Improvement Program, 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 on page 21.

The steps in the Deming Cycle are as follows:

- *Plan* means establish expectations for operating a process to meet specific objectives, goals, or deliverables.

- *Do* is essentially executing the process and collecting data for analysis and follow-up in the Check and Act steps of the cycle.

- *Check* is the step where actual results are compared to expected outcomes and differences are analyzed.

- *Act* is where feedback is provided to the operators of the process to reinforce expectations established in the Plan step. This is also the step where improvements to the process are identified and implemented in the Plan step.
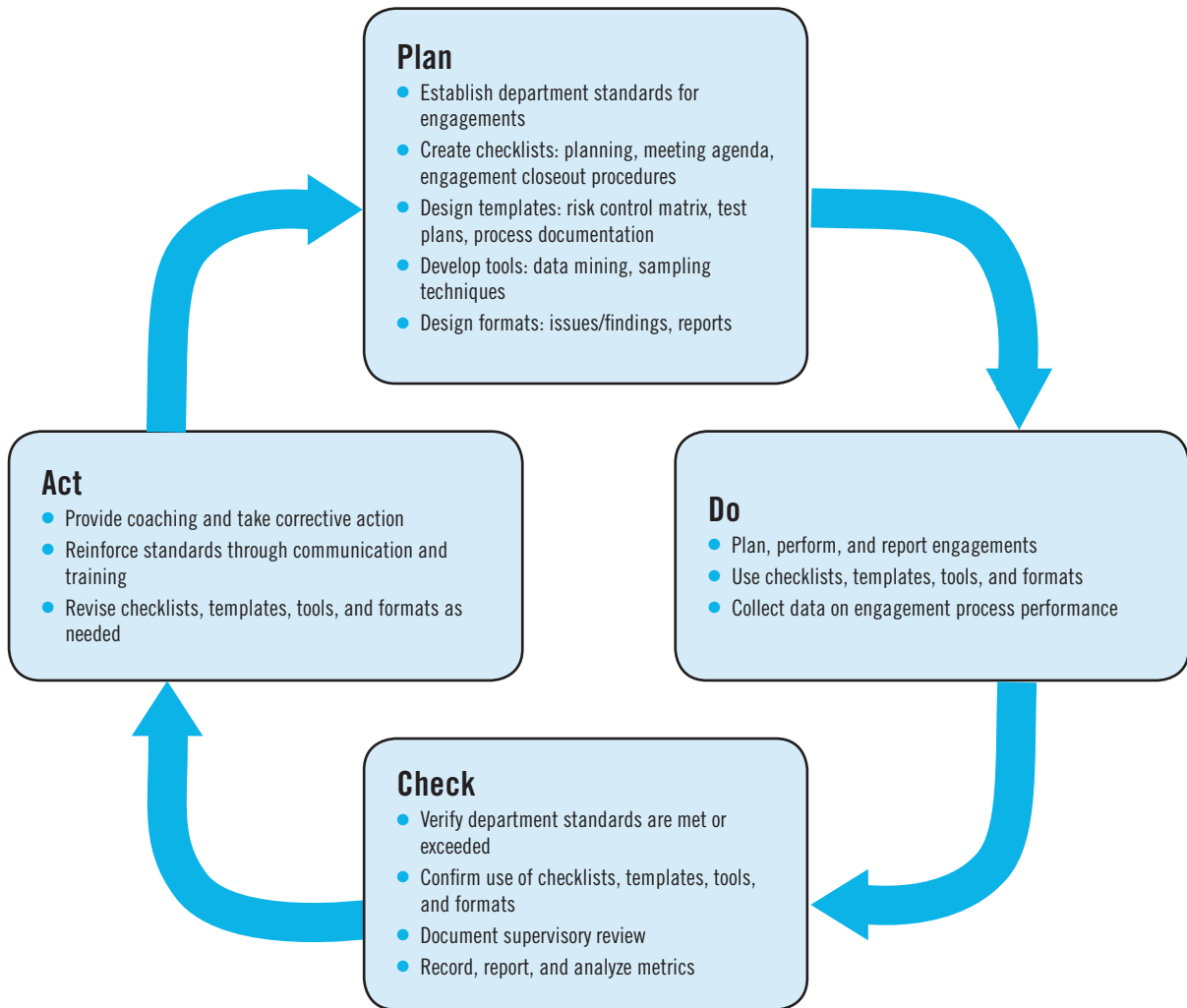
Plan
- Establish department standards for engagements
- Create checklists: planning, meeting agenda, engagement closeout procedures
- Design templates: risk control matrix, test plans, process documentation
- Develop tools: data mining, sampling techniques
- Design formats: issues/findings, reports

Do
- Plan, perform, and report engagements
- Use checklists, templates, tools, and formats
- Collect data on engagement process performance

Check
- Verify department standards are met or exceeded
- Confirm use of checklists, templates, tools, and formats
- Document supervisory review
- Record, report, and analyze metrics

Act
- Provide coaching and take corrective action
- Reinforce standards through communication and training
- Revise checklists, templates, tools, and formats as needed

Figure 2-2: Ongoing Monitoring

Examples are for discussion purposes; 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*:

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 objectives described in Standard 2340 that engagements must be properly

supervised to ensure objectives are achieved, quality is assured, and staff is developed. The 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.

Practice Advisory 2340-1 provides guidance for engagement supervision to assure ongoing monitoring uses processes, tools, and information considered necessary to evaluate conformance with the mandatory guidance of the IPPF. Integrating suggestions from the Practice Advisory into the ongoing monitoring process provides opportunities for training and development of staff as well as performance evaluation.

As noted in the practice guide Quality Assurance and Improvement Program, ongoing monitoring mechanisms may include:

- Acquiring feedback from audit clients and other stakeholders.

- Assessing audit engagement readiness prior to fieldwork by looking for items like preapproval of the audit scope, innovative best practices, budgeted hours, and assigned staff (expertise).

- Using checklists or internal audit automation to give assurance on whether processes adopted by the internal audit activity (e.g., internal audit policies and procedures manuals) are being followed.

- Using measures of project budgets, timekeeping systems, and audit plan completion to determine if appropriate time is spent on different aspects of the audit process, as well as high risk and complex areas.

- Analyzing other performance metrics to measure stakeholder value.

Any weaknesses or areas for improvement should be addressed as they are identified during the ongoing monitoring process.

Developing appropriate metrics to measure the performance of audit activities is also important and these metrics can be reviewed and revised as needed. 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

Periodic self-assessments are designed to assess conformance with the internal audit charter, The IIA's Definition of Internal Auditing, *Standards*, Code of Ethics, regulatory requirements, and to assess the efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders. The QAIP should document and define a systematic and disciplined approach to the periodic self-assessment process which could use tools provided in the appendices of this *Quality Assessment Manual.*

The periodic self-assessment must produce a documented review of conformance with each area of the mandatory guidance of the IPPF. It should assess the adequacy and effectiveness of the ongoing monitoring portion of the QAIP and lead to a conclusion regarding whether the internal audit activity is adding value to the organization.

IIA Practice Guide, Assisting Small Internal Audit Activities in Implementing the *International Standards for the Professional Practice of Internal Auditing,* recommends that the small internal audit activity perform an internal self-assessment at least annually. IIA Practice Guide, Quality Assurance and Improvement Program, recommends the QAIP be reviewed annually and sections of the program updated throughout the year as needed. This annual periodic self-assessment process provides the audit committee and the board 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, the results of which are listed at each board meeting.

The periodic self-assessment element of the QAIP would primarily address conformance with the following *Standards* in addition to those addressed by ongoing monitoring:

> 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

2600: Communicating the Acceptance of Risk

Definition of Internal Auditing

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.
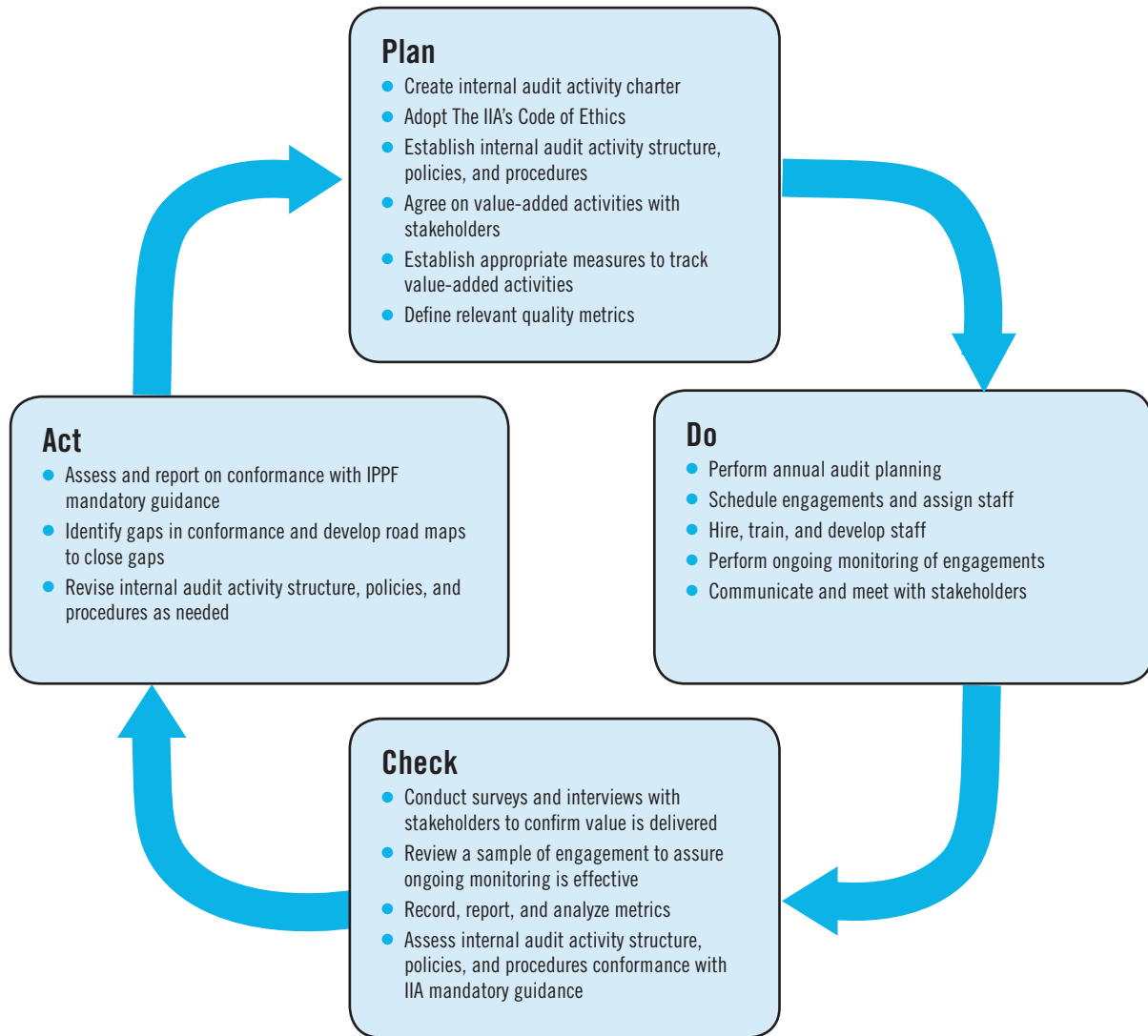
Plan
- Create internal audit activity charter
- Adopt The IIA's Code of Ethics
- Establish internal audit activity structure, policies, and procedures
- Agree on value-added activities with stakeholders
- Establish appropriate measures to track value-added activities
- Define relevant quality metrics

Do
- Perform annual audit planning
- Schedule engagements and assign staff
- Hire, train, and develop staff
- Perform ongoing monitoring of engagements
- Communicate and meet with stakeholders

Act
- Assess and report on conformance with IPPF mandatory guidance
- Identify gaps in conformance and develop road maps to close gaps
- Revise internal audit activity structure, policies, and procedures as needed

Check
- Conduct surveys and interviews with stakeholders to confirm value is delivered
- Review a sample of engagement to assure ongoing monitoring is effective
- Record, report, and analyze metrics
- Assess internal audit activity structure, policies, and procedures conformance with IIA mandatory guidance

Figure 2-3: Periodic Self-assessments

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

Metrics and the QAIP

As noted in IIA Practice Guide, Quality Assurance and Improvement Program, "Ultimately, the QAIP should measure whether internal audit is meeting its own objectives, as well as those of the broader organization." IIA Practice Guide, Measuring Internal Audit Effectiveness and Efficiency, states that "Establishing performance measures is critical in determining if an audit activity is meeting its goals and objectives, consistent with the highest quality practices and standards." Performance measures are therefore an integral part of the internal audit activity's QAIP, enabling it to address key quality considerations outlined earlier in this chapter:

- Ensure stakeholder expectations are met *(defined by expected and preferred deliverables that produce value for the organization).*

- Achieve successful operational results by building quality in to internal audit processes *(the cost of preventing mistakes is generally less than the cost of correcting mistakes).*

- Identify areas for improvement and track completion of improvement efforts *(continual improvement of operational activities is achieved through quality initiatives).*

IIA Practice Guide, Measuring Internal Audit Effectiveness and Efficiency, outlines a process to identify key performance measures for activities that stakeholders believe add value and improve the organization's operations. These measures become a critical part of the internal audit activity's QAIP in assessing the value-added portion of the IPPF mandatory guidance.

Effectiveness can be defined as "doing things *right* the first time." Analyzing the costs of nonconformance with operational standards, or "doing things *wrong* the first time," will help identify appropriate effectiveness metrics. For the internal audit activity, such costs might include unnecessary audit procedures performed, portions of engagements reworked, audit objectives not achieved, engagement reports delayed, or key engagement risks overlooked.

Reporting and analyzing performance measures will usually lead to identification of areas for improvement by the internal audit activity, and these improvement plans become part of the QAIP. Progress in completing these plans should be reported to key stakeholders at least annually.

A robust QAIP will include metrics that present the internal audit activity's focus on adding value (stakeholder satisfaction), productivity (effectiveness and efficiency), and quality (continual improvement).

ASSESSMENT, EVALUATION, AND REPORTING

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

Two questions the CAE should consider in 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 mandatory guidance of the IPPF?

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, relevant practice guides recommend annual internal self-assessments; the *Standards* does 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 it does not prescribe an assessment scale; however, the *Standards* does require the degree of conformance with the mandatory guidance of the IPPF be assessed. Appendix E has an evaluation summary master framework that contains conformance criteria linked with mandatory guidance of the IIPF, which CAEs can use to assess the conformance of their internal audit activity and their QAIP. Appendix E describes an assessment scale, and several assessment scales are also reviewed

in IIA Practice Guide, Quality Assurance and Improvement Program. CAEs may choose an appropriate assessment scale to perform their internal assessment and evaluation.

This discussion of rating scales leads back to the concept of a maturity model introduced in chapter 1. Internal audit activities in the early stages of establishing their QAIP could use a maturity model to help them achieve general conformance with the mandatory guidance of the IPPF—confirmed by their internal self-assessment process and eventually validated by an external assessor. Internal audit activities with mature QAIPs, where multiple internal and external assessments have been completed, could use a maturity model to help them go beyond conformance with the mandatory guidance of the IPPF to a higher level of quality.

Standard 1320 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 mandatory guidance of the IPPF should be provided to key stakeholders such as described by the standard. As noted earlier, the relevant practice guides suggest this reporting should occur annually. Failing to report any results of the internal assessment component—ongoing or periodic—of the QAIP would indicate lack of conformance with the quality standards of the IPPF.

Continuous Improvement

IIA Practice Guide, Quality Assurance and Improvement Program, states, "The primary objective of a QAIP is to promote continuous improvement." Adoption of the Deming Cycle in establishing a QAIP, as suggested in the practice guide, leads to continuous improvement efforts. Organizations that establish total quality management programs cite several positive outcomes from their focus on continuous improvement. These benefits can also be realized by the internal audit activity as they continuously improve their QAIP:

- Reduced error rates leading to increased stakeholder satisfaction and recognition of value produced by the internal audit activity

- 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 mandatory guidance of the IPPF, 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 continual improvement of their processes. Organizations use 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 continual improvement within the QAIP assures key stakeholders of the internal audit activity's commitment to quality.

LINKAGE TO EXTERNAL ASSESSMENTS

Chapter 2 outlined steps to building an effective QAIP focusing on the internal assessment process—ongoing monitoring and periodic self-assessment. External assessments are an element of the QAIP as prescribed by the *Standards*; however, the *Standards* only requires an external assessment to occur at least once every five years. The remaining 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 that external

reviewers will confirm what the CAE is measuring through the periodic self-assessment process and reporting to key stakeholders. The CAE's report of the periodic self-assessment may be used as the basis for assessment by an external reviewer.

A secondary link from 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 reviewers will want to examine relevant documentation that describes key elements of the QAIP (see Tool A0: Background Information and Document Request Checklist in appendix A).

The decision to schedule an external assessment results from the CAE's evaluation of the internal audit activity's QAIP. Key factors facilitating this evaluation include:

- Does the CAE believe that the internal audit activity generally conforms with the mandatory guidance of the IPPF?

- Is the documentation describing the QAIP comprehensive and complete?

- Has feedback from key stakeholders been incorporated into the QAIP?

As noted in Practice Advisory 1312-1, CAEs can choose from two methodologies for external assessments. The first approach is a full external assessment conducted by a qualified, independent external assessor or assessment team comprised of competent professionals under the leadership of an experienced professional project manager. The second approach involves an independent validation of the CAE's self-assessment of the internal audit activity performed by a qualified, independent external assessor or assessment team. Several factors may influence the CAE's decision in selecting an appropriate external assessment method to review the internal audit activity's QAIP.

The manual reviews tools, techniques, and methods used by external assessors to conduct a full external assessment (see chapter 4) or an independent validation of the CAE's periodic self-assessment (see chapter 3).

OVERVIEW OF RELEVANT PRACTICE GUIDES

The following IIA Practice Guides provide many recommendations and suggestions that internal audit activities will find useful in establishing their QAIP.

Quality Assurance and Improvement Program

Published in March 2012, this document offers guidance on the key elements of a QAIP and includes a discussion of the concepts of quality. It provides suggestions for developing the components of a QAIP and includes sample approaches, methodologies, and templates.

Assisting Small Internal Audit Activities in Implementing the *International Standards for the Professional Practice of Internal Auditing*

Published in April 2011, this document specifies a working definition of the term *small internal audit activity*. It includes specific examples and leading practices, relevant to the CAE and audit management of small internal audit activities, on how best to approach implementation of the *Standards*. As noted in the guide, the degree of challenge for a small internal audit activity in establishing a QAIP is high. However, the guide presents specific suggestions that address conformance with each of the standards for a small internal audit activity to consider.

Measuring Internal Audit Effectiveness and Efficiency

Published in December 2010, this document states that "establishing performance measures is critical in determining if an audit activity is meeting its goals and objectives consistent with the highest quality practices and standards." The guide supplies a framework for identifying relevant metrics that measure value delivered to stakeholders. It includes specific examples of various metrics, a reporting dashboard, and possible client survey questions.

The IIA is constantly producing new Practice Guides. Readers of this manual should check the Guidance section of The IIA's website for relevant guides not listed here as well as updates to the guides noted above.

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