Chapter 3

Self-assessment with Independent External Validation

OVERVIEW

The Institute of Internal Auditors' (IIA's) *International Standards for the Professional Practice of Internal Auditing* (*Standards*) requires external assessments to be conducted at least once every five years by an outside team of independent assessors to evaluate an internal audit activity's conformance with The IIA's Definition of Internal Auditing, Code of Ethics, and *Standards*.

As noted in the *Standards*:

> External assessments can be in the form of a **full external assessment**, or a **self-assessment with independent external validation**.

The full external assessment is conducted by a qualified, independent external assessor or assessment team. This approach involves an outside team of competent professionals under the leadership of an experienced and professional project manager. See chapter 4 for an outline of how to conduct a full external assessment.

The self-assessment with independent external validation involves the use of a qualified, independent external assessor or assessment team to conduct an independent validation of the internal self-assessment and a report completed by the internal audit activity. Independent external assessors should be well versed in successful internal audit practices. Standard 1312 outlines the qualifications for an external assessor (discussed later in this chapter), which provides an outline of how to conduct a self-assessment with independent external validation.

A self-assessment with independent external validation includes a comprehensive and fully documented self-assessment process that requires the chief audit executive (CAE) to complete the self-assessment work, and normally provides limited attention to benchmarking, review, and consultation as to implementation of leading practices. Essentially the CAE oversees the efforts of an internal assessment team that completes planning documentation, performs assessment work programs, evaluates conformance with The IIA's mandatory guidance, and produces a report summarizing assessment results.

The independent external assessor or assessment team validates the work of the internal assessment team through review of assessment planning documentation, re-performing a sample of assessment work program steps, conducting interviews with key stakeholders (executive leadership, operating management, and internal audit staff), and assessing the conformance conclusions reported by the internal assessment team.

The internal assessment team should expect to submit all of its documentation related to assessment planning, assessment work programs, and its final assessment report to the independent external assessor or assessment team well in advance of any onsite visit by the external assessor to perform validation activities.

DEFINING THE SCOPE OF THE ASSESSMENT

Practice Advisory 1312-2 provides recommended guidance regarding the performance of a self-assessment with independent validation and notes that the primary objective is to assess conformance with The IIA's mandatory guidance. Through consultation with the audit committee and senior management, the CAE should define the scope of the self-assessment

with independent validation, which may include feedback on potential leading practices or identification of opportunities for enhancing existing internal audit activity processes.

PLANNING

A well-established Quality Assurance and Improvement Program (QAIP) provides a solid framework for achieving a successful self-assessment with independent validation. The documentation, assessments, metrics, and reporting that comprise an internal audit activity's QAIP should be useful in preparing much of the material required to perform a self-assessment with independent validation.

Planning, scheduling, and staffing the self-assessment should follow the same process the internal audit activity uses to execute and control any assurance or consulting engagement. Assigning resources necessary to complete the self-assessment should be part of the annual plan for the internal audit activity for the year in which the self-assessment with independent validation is to be performed. Progress updates regarding the self-assessment with independent validation should be included with status reporting for all other engagements in process at the time.

Key considerations for determining resource requirements and preparing a schedule of activities for the self-assessment with independent validation include:

- An evaluation of additional documentation and analysis required by the planning tools (see appendix A) beyond what is readily available from the internal audit activity's existing QAIP documentation.

- An estimate of time required for distributing, collecting, and analyzing survey tools (see appendix B). This activity should be coordinated with the external independent assessor as discussed below.

- A proposal from the independent external assessor regarding the number of interviews (see appendix C) they wish to conduct with senior executives, operating management, and internal audit staff. This activity should be coordinated with the external independent assessor as discussed below.

- An estimate of time required for the internal assessment team to complete the assessment programs (see appendix D). A critical assumption for this estimate is the number of engagement files to be reviewed as part of the internal audit process program.

- A discussion with the independent external assessor regarding how much time they will require for their onsite work and how far in advance of onsite work they want to receive documentation prepared by the internal audit activity's internal assessment team.

Upon completion of the onsite work by the independent external assessor, the self-assessment with independent validation's schedule should allow time for the external assessor to complete the validation report.

Selecting the Independent External Assessor for a Self-assessment with Independent Validation

As noted in Standard 1312:

*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.***

*An **independent assessor or assessment team** means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.*

The CAE should consult with the audit committee and senior leadership regarding selection of the external assessor or assessment team based on a thorough review of their qualifications and experience. The CAE should also obtain a signed statement from the external assessor or assessment team confirming their independence as defined in the *Standards*.

COMMUNICATION AND COORDINATION WITH THE EXTERNAL ASSESSOR

As indicated on the process flow map appearing at the end of this chapter, most of the work in performing a self-assessment with independent validation is completed by the internal audit activity's internal assessment team. However, the external assessor will perform some work during the onsite visit, and coordination with the internal assessment team will facilitate completion of the external assessor's work.

One area requiring coordination is completion of surveys (see appendix B). The internal assessment team (or CAE) and the external assessor should agree on who will be asked to participate in the surveys and the schedule for completing them. The internal assessment team would be responsible for sending out the surveys, and survey participants will normally send their responses directly to the external assessor for collation and evaluation of results. The external assessor will review results of the surveys with the CAE and the internal assessment team during the onsite visit. The external assessor will also use information gained from the surveys in completing interviews with key stakeholders.

Another area for coordination is scheduling and conducting interviews (see appendix C) with key stakeholders. Again, the internal assessment team (or CAE) and the external assessor should agree on who will be asked to be interviewed and the schedule for completing them. Interviews are normally conducted by the external assessor during the onsite visit.

During the onsite visit, the external assessor will review tests of audit engagement files prepared by the internal assessment team. The external assessor may also want to review other audit engagements not reviewed by the internal assessment team. To enable the external assessor to complete this review, the internal assessment team should provide the assessor with appropriate access to any relevant software.

WORK TO BE COMPLETED BEFORE THE ONSITE VISIT

The CAE should oversee completion of the self-assessment of the internal audit activity, which uses the same tools completed during a full external assessment (see the appendices). Following are key elements of the self-assessment to be performed and documented by the internal audit activity's internal assessment team:

- Completing the planning guides (see appendix A) that include analysis of the internal audit activity's operations and a preliminary self-assessment of conformance with The IIA's mandatory guidance.

- Conducting surveys using the survey tools (see appendix B) that collect information from senior leadership, operating management, and internal audit staff regarding various aspects of the internal audit activity. Use of the surveys should be coordinated with the external assessor or assessment team as described above.

- Executing the assessment programs (see appendix D) that are intended to collect and evaluate evidence of conformance with The IIA's mandatory guidance.

- Summarizing results of the evaluation (see appendix E).

- Preparing a report (see appendix F) of results of the assessment to be validated by the external independent assessor and eventually distributed to the audit committee and other appropriate stakeholders.

All of the above material should be made available to the external assessor for use in completing the review and validation of the self-assessment. The internal audit activity should coordinate with the external assessor which documents will be supplied to the external assessor before the onsite visit. The external assessor will also want to schedule interviews to be conducted during the onsite visit.

WORK COMPLETED DURING THE ONSITE VISIT

During the onsite visit, the external assessor will review documentation prepared by the internal assessment team and perform sufficient tests of the self-assessment to validate results and express an opinion regarding conformance with The IIA's mandatory guidance. The external assessor will exercise professional judgment in determining the extent of testing of the self-assessment based on the size and complexity of the internal audit activity.

The external assessor will also conduct interviews with key stakeholders to follow up on any issues or opportunities identified from the surveys—all within the agreed-upon scope of the self-assessment with independent validation. As nearly all of the work performed during a self-assessment with independent validation is completed by the internal audit activity's internal assessment team, the amount of time required onsite by the external assessor is normally much less than that required by an external assessment team performing a full external assessment.

REPORTING AND FOLLOW-UP

Upon completion of its work, the external independent assessor will provide an opinion confirming results of the internal assessment or expressing disagreement as appropriate. If not in agreement with the evaluation, the external assessor can refer to recommended guidance (see Practice Advisory 1312–2), which suggests that dissenting wording be added to the report specifying the points of disagreement.

Recommended IIA guidance (see Practice Advisory 1312–2) suggests the final report of the self-assessment with independent validation be signed by the internal audit activity's internal assessment team and the independent external assessor and issued by the CAE to senior management and the board.

See appendix F for a discussion of reporting tools.

Frequently Asked Questions

1. **Question:** What are costs and benefits associated with the decision to perform a self-assessment with independent validation versus a full external assessment?

    ➜ **Answer:** The obvious differences in costs are the higher out-of-pocket costs associated with a full external assessment versus a self-assessment with independent validation. However, the internal audit activity's internal resource commitment may be much higher with a self-assessment with independent validation than with a full external assessment. Many CAEs choose to perform a self-assessment with independent validation following their initial establishment of their QAIP to achieve the benefit of building quality into their operations. The benefit of a full external assessment comes from a potentially broader scope than a self-assessment with independent validation, and perhaps a more robust assessment process being performed by an external team.

PROCESS MAP

The process map for a self-assessment with independent validation, indicating the division of work between the internal audit activity and the independent external assessor or assessment team, is shown on the following page. Note that conducting surveys and scheduling interviews requires close coordination between the internal audit activity and the external independent assessor.

As described in chapter 2, the independent assessor performs testing of the self-assessment and conducts selected interviews with key stakeholders.

QUALITY ASSESSMENT PROCESS MAP
Self-assessment with Independent Validation

Completed by the IA Activity

	IA Governance	IA Staff	IA Management	IA Process

Background Information on the internal audit (IA) activity.

Document Request Checklist cross-referenced to planning/program process flow: IA Governance, IA Staff, IA Management, and IA Process.

Background Information and Document Request Checklist

Planning Guides designed for each segment.

A1	A2	A3	A4

Surveys containing elements from each segment.

B-1 Executive Leadership & Operating Management

B-2 IA Staff

Interview Guides containing elements from each segment.

C-1 Chief Audit Executive

C-2 Board Members, Senior & Operating Management

C-3 IA Staff

C-4 External Auditors & Other Assurance Providers

Programs designed for each segment. Assessors document their conclusions regarding conformance with mandatory guidance here.

D1	D2	D3	D4

Evaluation Summary provides a record of ratings determined within the programs by assessors.

Evaluation Summary

Quality Assessment Report formatted to meet the needs of key stakeholders.

Quality Assessment Report

Completed by the IA Activity

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