



# Full External Assessment

## OVERVIEW

External assessments must be conducted every five years as required by The Institute of Internal Auditors' (IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*, which require assessment by an outside independent assessor or assessment team. The objective of the external assessment is to evaluate an internal audit activity's conformance with The IIA's Definition of Internal Auditing, Code of Ethics, and *Standards*. External assessments may also focus on identifying opportunities to enhance internal audit processes, offering suggestions to improve the effectiveness of the internal audit activity, and promoting ideas to enhance the activity's image and credibility. This approach embraces the successful practices of the profession and emphasizes governance, risk management, and control processes as important areas for auditors' attention. External assessment recommendations focus on opportunities for improvement and are offered to enhance the internal audit activity's ability to add value to the organization.

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**.*

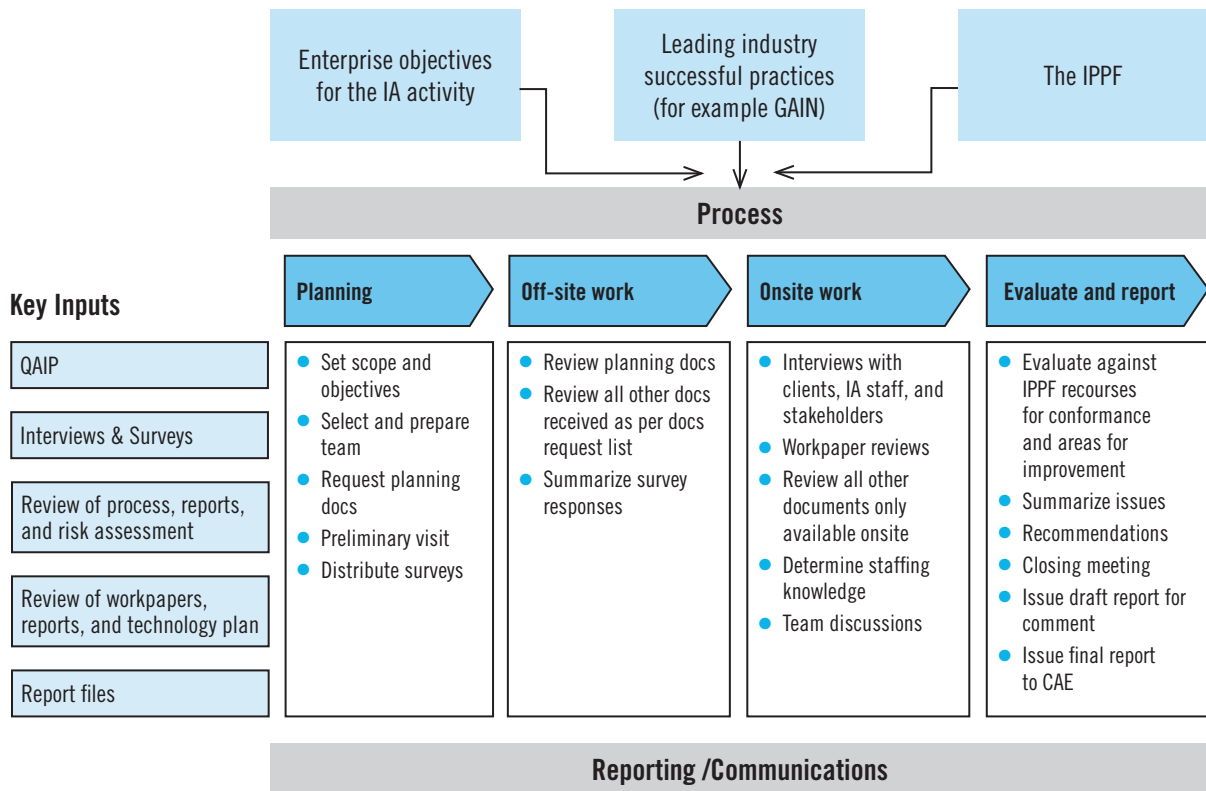
The full external assessment is conducted by a qualified, independent external assessor or assessment team. The team approach involves an outside team of competent professionals under the leadership of an experienced, professional project manager. This chapter outlines how to conduct a full external 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 audit activity's internal self-assessment and report. Independent external assessors should be well versed in successful internal audit practices. See chapter 3 for an outline of how to conduct a self-assessment with independent validation.

The full external assessment process involves the chief audit executive (CAE) acquiring a suitable independent, qualified provider of external assessment services, as guided by the *Standards* (Practice Advisory 1312-1). The CAE should provide input into the requested scope of the full external assessment and its specific objectives. This process should also ensure full consideration regarding expectations of executive management and the audit committee.

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





**Figure 4-1: Full External Assessment Process**

## PLANNING

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

- Agree on the scope and objectives of the full external assessment.
- Select and prepare (as needed) the full external assessment team.
- Request and review the planning guides (see appendix A) completed by the internal audit activity and clarify any questions or concerns.
- Make a preliminary visit (or teleconference) to the organization to gather further information, finalize the work plan, select and schedule interviews (see appendix C) with the internal audit activity’s key stakeholders and staff, and otherwise prepare for the onsite visit.

- Distribute the two surveys, Executive Leadership & Operating Management and Internal Audit Staff, to survey participants (see appendix B).

## Scope and Objectives

The scope includes the following key elements of professional internal audit practice:

- 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 aligning audit objectives and plans with the objectives of the entity as a whole.
- The IIA's International Professional Practices Framework (IPPF) and any other legal requirements laid down for the internal audit activity within the specific organization and/or country.



The following basic objectives should be achieved in a full external assessment:

- Assess the efficiency and effectiveness of the internal audit activity in light of its charter, 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 the internal audit activity is performing at less than an effective level or is not in conformance with one or more of the *Standards*.

- Provide an opinion on the internal audit activity's conformance with The IIA's Definition of Internal Auditing, Code of Ethics, and *Standards*.
- If applicable, identify opportunities and offer ideas to the CAE and staff for improving effectiveness of the internal audit activity, thereby raising the value added to management and the audit committee.

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

## Select and Prepare the Full External Assessment Team

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.*



## Team Selection and Qualifications

- IIA 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 Practice Advisory 1312-1)**
  - 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, information technology, 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 and Clarify Any Questions or Concerns**

- The full external assessment process becomes easier when planning documentation is completed by the internal audit activity before the onsite 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 onsite 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).



## **A Preliminary Visit (or Teleconference) to the Organization**

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 onsite visit.
- Clarify any misunderstandings regarding the planning documentation (see appendix A).
- Ensure that all documents requested as 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 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 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 the two surveys, Executive Leadership & Operating Management and Internal Audit Staff, to survey participants:** the purpose and use of the surveys are fully discussed in appendix B.

## WORK TO BE COMPLETED OFF-SITE (PRIOR TO ONSITE VISIT)



- The full external assessment team leader should review the planning documentation (planning guides and documents noted on the document request checklist) provided by the CAE before visiting the organization. This will help to plan the work outlined in the programs that will be performed onsite. Refer to appendices A and D for explanations of the planning guides and programs.
- The CAE should complete the two surveys—Executive Leadership & Operating Management and Internal Audit Staff—providing his or her best assessment of how executive leadership, operating management, and internal audit 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 as well as possible 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 onsite visit) will need to interpret whether survey information has uncovered favorable or unfavorable ratings or trends. The CAE should be encouraged to use this information during training sessions with internal audit staff to emphasize positive results and highlight areas that need improvement.

## ONSITE PROCEDURES

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, surveys, and interview guides: Internal Audit Governance (D-1), Internal Audit Staff (D-2), Internal Audit Management (D-3), and Internal Audit Process (D-4).

Onsite work is the most comprehensive element of a quality assessment. It includes:

- Interviews with selected members of the board (audit committee), executive management, operating managers, and internal audit staff, focusing on organizational risks and objectives and the internal audit activity's effectiveness at remaining current and adding value with respect thereto. This is one of the most valuable onsite activities. Interviews allow for in-depth exploration of issues raised by survey results, and the perceptions gathered from interviewees should be investigated further and corroborated when possible with hard evidence. It is best to conduct these interviews at the beginning of the onsite visit, but they may continue throughout the visit to accommodate the busy schedules of executive management (see appendix C for additional instructions regarding the interview guides).
- Considering the work of other monitoring and assurance functions.



- The review of the internal audit activity's audits and consulting engagements, reports, and supporting documentation; and administrative and operating policies, practices, procedures, and records.
- Determining the staffing knowledge and skills, especially in IT areas; risk assessment; controls monitoring; interaction with governance participants; successful practices; and other evidence of continuous improvement.
- The review of reports for, and communications with, management and the board (audit committee) to assess the extent that the internal audit activity meets objectives and adds value.
- The review and assessment of the coordination of the internal audit activity with the work of the independent auditors.
- Evaluating the internal audit activity's conformance with the *Standards* and other relevant policies and procedures.
- The review of the quality/process improvement actions currently underway and planned for the near term. Also consider successful practices appropriate to the organization's environment.



The onsite process is a cumulative experience for the team; thus, frequent discussions are held and information is assessed by the team to offer practical suggestions reflecting the current thinking of the profession. Onsite work should be determined by such factors as the size of the internal audit activity, workpaper review, and interview schedule, but typically lasts for one to two weeks, depending on the scope of work and objectives of the full external assessment, and the size, geographic dispersion, and structure of the internal audit activity.

## EVALUATING THE INTERNAL AUDIT ACTIVITY AND REPORTING

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

The most important aspect of the assessment is the full external assessment team's evaluation of the internal audit activity's conformity with The IIA's Definition of Internal Auditing,

Code of Ethics, and *Standards*; its adherence to its charter; the extent of its adoption of leading practices; and its program of continuous improvement. These evaluations will also disclose opportunities for improvement. This 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*, 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* by the internal audit activity.

## Summary of Issues, Recommendations, and Closing Conference

See appendix E for a discussion of reporting guidelines and options.

- Issues should be brought to the attention of the CAE as they come up throughout the full external assessment and discussed as appropriate. 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 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 for a discussion of reporting guidelines and options). When the full external assessment team leader completes the draft, copies are sent to the team for comment within a specific timeline. Comments are considered and, as appropriate, incorporated into the draft report before it is sent to the CAE. The CAE is requested 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 executive to whom the CAE reports. Copies of the full external assessment report should be addressed to the individuals or groups initiating the full external assessment.

The process map for a full external assessment, indicating the division of work between the internal audit activity and the independent external assessment team, is shown below. Note that conducting surveys and scheduling interviews require close coordination between the internal audit activity and the external assessment team.

# QUALITY ASSESSMENT PROCESS MAP

## Full External Assessment

