

- **Quality Assurance in Internal Audit**

Standard on Internal Audit (SIA) 7

Agenda

Introduction

Expectations from Internal Audit

Quality Assurance Framework

Internal Quality Review

External Quality Review

Key Statistics

Comparison with IIA

Recap

Introduction

Given the different elements of Quality, the key steps are:

- *Recognizing who the stakeholders are*
- *What are the expectations of these stakeholders*

Is Internal Audit Addressing Stakeholders' Needs?

Needs?

CEO/COO	<ul style="list-style-type: none">• What unforeseen events might disrupt our strategy and prevent achievement of our goals?
CFO	<ul style="list-style-type: none">• What risks could materially impact our financial results?
Board/Audit Committee	<ul style="list-style-type: none">• How are we managing business risks?• How are we assured they are being covered appropriately under Audit?
General Counsel	<ul style="list-style-type: none">• What could we do to further minimize our legal and regulatory liabilities?
General Managers	<ul style="list-style-type: none">• How much risk am I allowed to take?• What is our corporate risk appetite?
Risk Managers	<ul style="list-style-type: none">• How efficient is our current risk financing strategy?• Does the current risk management strategy adequately capture the key risks?
Regulators	<ul style="list-style-type: none">• How well does senior management understand risk?• How great is management's risk awareness?• What is their ability to manage compliance with the regulatory requirements?

Expectations from Internal Audit

Expectations from Internal Auditors



SIA -2

- **Continuing responsibility** to maintain **professional knowledge and skills** at a level required
- Ensure competent professional service based on latest developments in:
 - Internal Audit Profession
 - Economy
 - Industry
 - Legislation

Quality Assurance Framework

Consider the following while establishing Quality assurance framework

Quality Assurance Framework

Quality Assurance over entire Internal Audit Activity

IA scope and objectives
Define the Audit Universe
Prepare the Risk Based Audit Plan

Engagement
Planning

Allocation of
Resources

Fieldwork

Review

Reporting

Proficiency and Due Professional care

Independence & Objectivity



Elements of Internal Audit Activity

Objectives of Quality Assurance

Program

Quality Assurance program should perform evaluation of

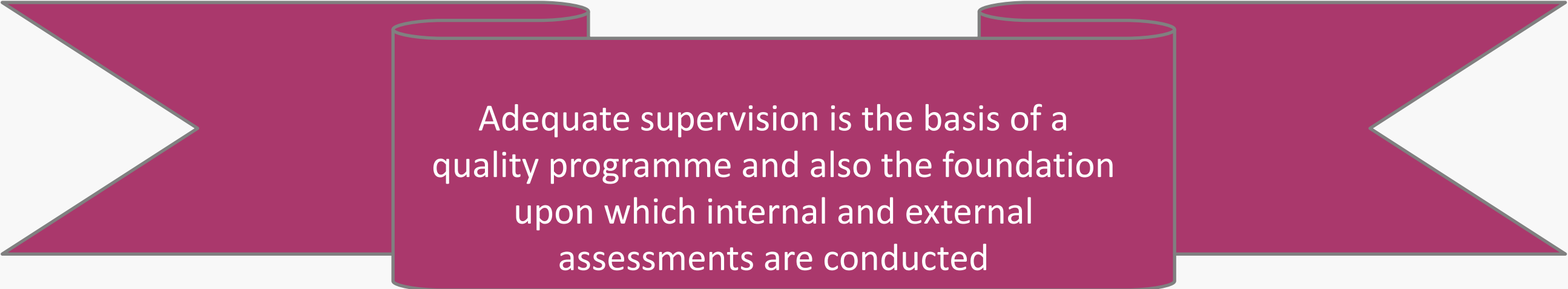
Coverage of Quality assurance

program

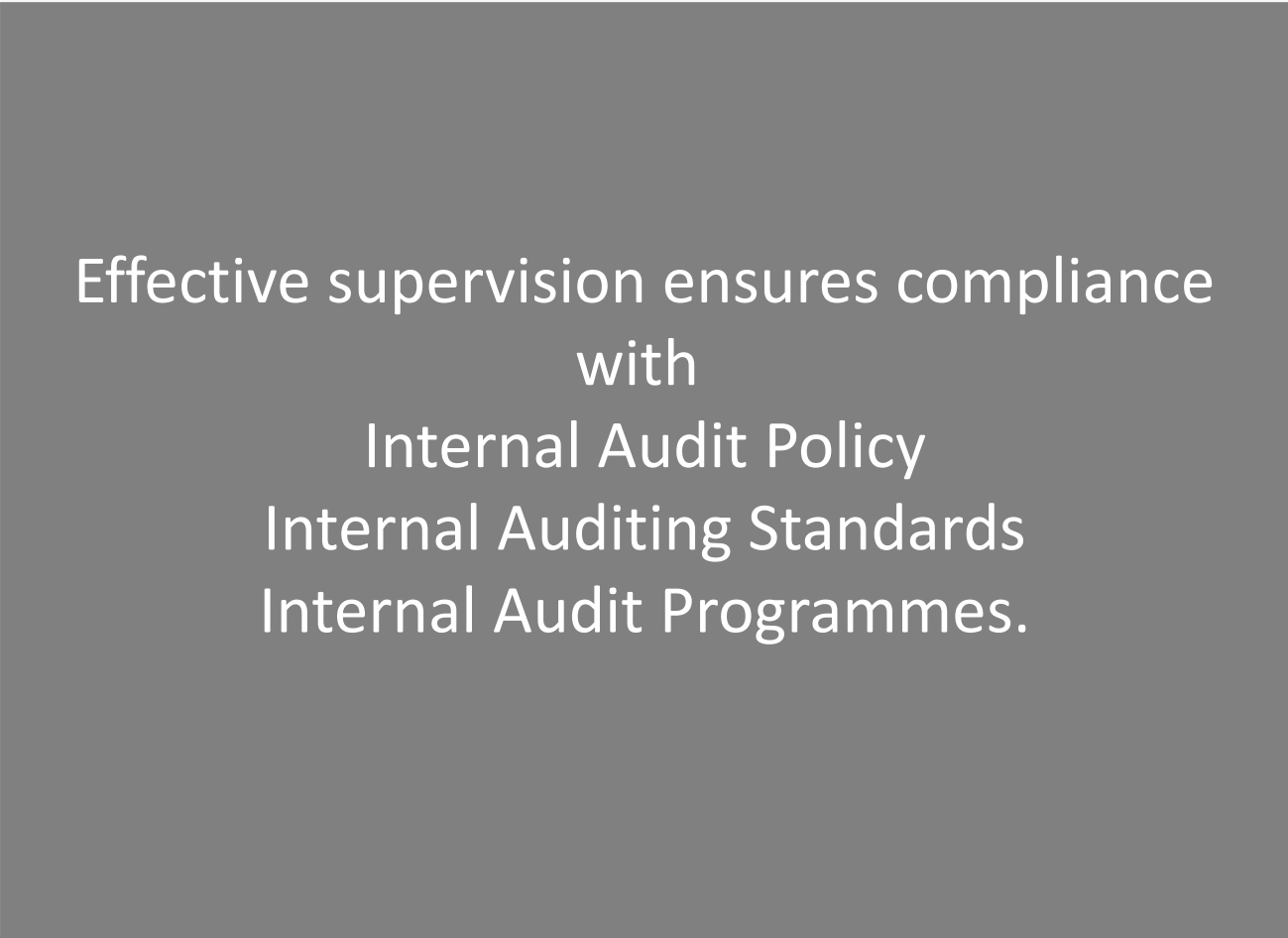
Aspects of internal audit to be covered from the following perspectives

Internal Quality Assurance Reviews

Internal Quality Assurance Reviews



Adequate supervision is the basis of a quality programme and also the foundation upon which internal and external assessments are conducted



Effective supervision ensures compliance with
Internal Audit Policy
Internal Auditing Standards
Internal Audit Programmes.

Internal Quality Assurance Reviews

Methods/ Parameters for continuous monitoring of internal audit activity

Ongoing Monitoring (Engagement Manager)

- Ongoing Review of workpapers and sign off
 - Feedback from auditee Units
 - Internal Audit Automation and checks
- Appropriate measure to ensure adequate time and resources are spent on high risk and complex areas

Periodic Self Assessment (Other than engagement Manager)

- Adherence to Internal policies and procedures
 - Review of work papers
 - Quality of supervision
- Review of performance metrics

External Quality Assurance Reviews

Expectations from External Quality reviewer

- Independent review
- Grant assurance as to whether IA is acting in accordance with its mission and charter
- Provide feedback of how IA is received by the audit committee, senior management and internal clients (line management)
- Supply senior management with real-world recommendations for Internal Audit “Leading Good Practices”
- Identify whether IA meets or exceeds applicable standards

What The Reviewer Should Look For

- Independence / Objectivity
- Proactive Approach
- Risk Based Approach
- Alignment with Corporate Objectives
- Understanding of the Business
- Acts as a Catalyst for Change
- Innovative and Consultative
- Leveraging Technology and Leading Practices
- Effective Communication and Relationships
- Value Perception
- Dynamic and Flexible

Quality Assessment Approach

Gather Information

Focus is on effectiveness of operations, stakeholder perceptions, compliance to standards and internal audit practices

• Interviews with senior and line management	• Interviews with Audit Committee	• Staff and management questionnaires	• Review of IA resources and personnel	• Review of internal audit work products for compliance to standards	• Bench-marking against Leading Practices
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Perform Analysis



Performance

Opportunity Factors

- Business risk focus
- Meeting/exceeding stakeholder expectations
- Value-added recommendations
- Efficiency and effectiveness of operations

Interview/ survey

Conduct surveys/ interviews of:

- Audit Committee members
- Senior/executive management
- CAE
- Internal audit senior level members
- Internal Audit staff members

Key metrics for benchmarking

- Staff levels
- Staff knowledge and skills
- Training hours
- IA cost with component wise breakup
- Areas outsourced
- IA plan distribution

Conclusion and Reporting

- Discuss the gaps and recommendations with the CAE
- Contents of the QAR report typically includes:
 - Executive summary
 - Process
 - Benchmarking
 - Interviews conducted and interview results
 - Survey results
 - Compliance status with standards (IIA/ ICAI)
 - Generally Compliance
 - Partial Compliance
 - Non compliance
 - Suggestions of leading good practice opportunities for consideration by the internal audit team
- Results of the external quality assessment review should be communicated to the senior management and Board/ Audit Committee including the plan of action for implementation of recommendations.

The added Value of Quality

Assessment

A *Quality Assessment* should go above and beyond confirming compliance to the Standards. Key questions include:

- Is Internal Audit focused on the right things?
- Is Internal Audit properly equipped to contribute the appropriate value to the organization?
- Does Internal Audit play a key role in the corporate governance and risk management process?
- Does Internal Audit understand stakeholder needs and expectations? And are they meeting them?

Key Statistics

Absence of formal policy and procedures for QAIP - 38%

Organizations performing ongoing internal assessment reviews – 76%

Organizations performing periodic internal assessment reviews – 56%

Internal assessment review methods used:

Ongoing review	Statistics	Periodic review	Statistics
Engagement Supervision	87%	In-depth Interviews	38%
Checklist	74%	Self assessment	73%
Feedback	81%	Benchmarking	64%
Budget and Timekeeping	65%	Peer reviews	9%
Audit plan completion	85%	Combination	22%

Key Statistics

Sharing of Internal assessment results:

- Senior management – 61%
- Audit committee - 67%
- Board of Directors – 16%
- No one – 15%

Types of external quality assessment review:

- Self assessment with independent external validation – 19%
- Independent and external assessment – 81%

Frequency of external quality assessment review:

- 1 to 2 years – 5%
- 3 to 4 years – 29%
- 5 years – 65%
- Others – 1%.

Key Statistics

Ares covered in an external assessment review:

- Compliance with professional standards – 93%
- Review of Charter and IA policy manual – 96%
- Legislation and Regulatory compliance – 52%
- Management expectations – 85%
- Integration with Governance process – 67%
- Audit Process, tools and techniques used – 90%
- Staff Mix, knowledge and expertise – 93%
- Whether IA adds value – 72%

Comparison with IIA

IIA - 1300

- Develop and maintain a Quality Assurance and Improvement Program (“QAIP”) that covers all aspects of the internal audit activity and continuously monitors its effectiveness.
- Process to monitor and assess overall effectiveness of quality program.
- Include both internal and external assessments

SIA - 7

- System of quality assurance should include policies and procedures addressing:
 - Leadership responsibilities for quality in internal audit
 - Ethical requirements
 - Acceptance and continuance of client relationship or specific engagement
 - Human Resources
 - Engagement performance
 - Monitoring.

Comparison with IIA

IIA - 1300

- Internal assessments include ongoing reviews and periodic reviews
- External assessments - Once every five years
- The CAE should communicate the results of external assessments to the board

SIA - 7

- The internal quality review – To be done by person responsible for quality Assurance and/ or other experienced member(s) of the internal audit function
- External quality review - Once in three years
- Results of the internal and external quality reviews to be communicated to management and those charged with governance along with the action plan

Recap

- Applicable to In-house internal audit department and External firm of professional accountants.
- Provide reasonable assurance that the internal auditors comply with Professional standards, Regulatory and legal requirements and reports issued are appropriate
- System of Quality Assurance should cover **policies and procedures** covering:
 - Leadership responsibility for quality
 - Ethical requirements
 - Human Resources
 - Engagement Performance
 - Monitoring

Recap

- **Quality Assurance framework should cover all aspects of Internal Audit:**
 - Compliance with the Internal Audit Policies and procedures
 - Budget monitoring
 - Internal Audit Plan
 - Risk Assessment
 - Audit tools and Technology
 - Coordination with external auditors
 - Staffing aspects
 - Training and Professional Development
 - Performance Metrics
 - Follow up for closure of audit findings.

Recap

- **Quality Assurance framework should cover:**
 - Internal Audit Manual – Covering all aspects of Internal Audit
 - Staff Training and Supervision
 - Feedback process
 - Performance Criteria
 - Benchmarking.
- **Internal Quality Review:**
 - Ongoing and Continuous monitoring
 - Done by person from Internal Audit function
 - Results should be communicated to Management and ACB
- **External Quality Review:**
 - Atleast once in 3 years as per SIA -7
 - Professionally qualified person having an in depth knowledge and experience
 - Results should be communicated to Management and ACB.

Questions?

THANK YOU

Comparison with IIA

- SIA-7 does not cover the following:
- Qualifications of the internal assessors and external assessors
- No recommendations on the scope of internal and external assessment
- Self assessment
- Manner of reporting on the quality programme assessment
- Disclosures required if internal auditing standards are not met
- As per SIA external assessment is required to be carried out once in 3 years, however as per IIA it is once in 5 years.