

Section IV: Quality Assurance and Improvement Program

This section is designed to help you:

- Describe the required elements of a quality assurance and improvement program (QAIP), including both internal and external assessments.
- Describe the requirement of reporting the results of the QAIP to the board or other governing body.
- Identify appropriate disclosure of conformance versus nonconformance with The IIA's *International Standards for the Professional Practice of Internal Auditing*.



The IIA's guidance referenced in the Learning System may be accessed using the links below. Access to specific pages and documents varies for the public and The IIA members.

- **Attribute Standards:** www.theiia.org/Attribute-standards
- **Performance Standards:** www.theiia.org/Performance-standards
- **Standards and Guidance:** www.theiia.org/Guidance
- **Position Papers:** www.theiia.org/Position-papers
- **Implementation Guidance:** www.theiia.org/Practiceadvisories
- **Practice Guides and GTAGs:** www.theiia.org/Practiceguides

The topics in this section address the mandatory requirement for the internal audit activity to develop and periodically perform the processes in a quality assurance and improvement program. Details covered include the required elements of these programs, including internal and external assessments, the reporting requirements, and how to disclose conformance versus nonconformance with the Code of Ethics or *Standards*.

Topic A: QAIP Required Elements

This topic discusses the importance of quality in the internal audit activity and how quality can be delivered using a quality assurance and improvement program (QAIP) as mandated by Standard 1300. Internal assessments (including ongoing monitoring and periodic self-assessments) and external assessments are described as well as how to establish a QAIP and how such a program and other tools can be used to help measure internal audit activity effectiveness and efficiency.



In addition to reviewing the contents of this topic, students can review the following IIA materials:

- Implementation Guidance for 1300 series
- Practice Guide, "Quality Assurance and Improvement Program"
- Practice Guide, "Measuring Internal Audit Effectiveness and Efficiency"

Quality and the QAIP



Attribute Standard 1300, “Quality Assurance and Improvement Program”

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Organizations undergo refinement, and internal processes change and evolve. As an organization changes, auditing services must keep pace. To ensure its consistent relevance and quality, the internal audit activity is required to have a **quality assurance and improvement program (QAIP)** in place.



The mandatory scope of a QAIP is limited to the mandatory elements of the IPPF. This includes the *Standards*, the Code of Ethics, the Core Principles for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. Assessors can evaluate against recommended guidance (implementation guidance and supplemental guidance) or make additional improvement recommendations, but these are not mandatory.

Let’s break down the interpretation (shown in italics) and implementation guidance or other IIA guidance (the sub-bullets) for Standard 1300:

- *A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics.* (The term “conformance to the IPPF” is used in the rest of this topic to refer to conformance to these and other mandatory elements of the IPPF.)
 - A well-developed QAIP helps embed the concept of quality in the internal audit activity and operations.
 - Following a general methodology helps ensure quality and conformance to the IPPF.
 - It is crucial that the CAE regularly reviews the IPPF and is aware of any changes that may need to be communicated throughout the internal audit activity.
- *The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.*
 - The QAIP needs to be periodically evaluated and updated to ensure that it adds value.
 - A QAIP is a key way to measure the effectiveness and efficiency of the internal audit activity.
- *The chief audit executive should encourage board oversight in the quality assurance and improvement program.*

Quality

What is **quality**?

- Quality is the degree to which a product, service, or process meets the customer’s expectations—the degree to which it is fit for purpose.
- Rather than being an absolute, quality is relative.
- Quality does not just happen. It is the combination of the right people, the right systems, and a commitment to excellence.
- Quality is driven by the leaders of the organization, but it is implemented by everyone at the organization.
- A formal, structured approach is required to ensure quality.
- Quality in internal audit is an obligation to meet customer expectations and to meet professional responsibilities by conforming to the IIA’s *Standards* and Code of Ethics.
- Internal audit quality includes operating with proficiency and due professional care, undertaking continuing professional development, and conforming to a set of recognized standards.

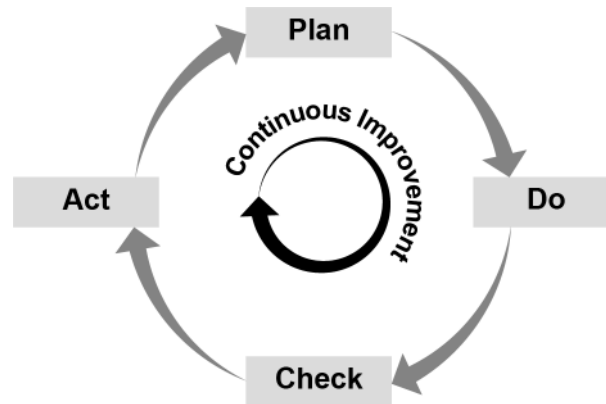
Quality can be assured by implementing a quality assurance program and adhering to its requirements on an ongoing basis. Anderson et al. in *Internal Auditing* define **quality assurance** as “the process of assuring that an internal audit function operates according to a set of standards defining the specific elements that must be present to ensure that the findings of the internal audit function are legitimate.”

A QAIP ensures that quality is built in to, rather than on to, internal audit operations. After all, “demonstrates quality and continuous improvement” is one of the Core Principles for the Professional Practice of Internal Auditing.

Note that “conformance” in regard to the *Standards* is a technical term from the quality management discipline that implies a principles-based approach. It is not about complying with the letter of the standard (i.e., it is not rules-based). Someone who is in conformance is expected to achieve the spirit of the standard.

Continuous Improvement

Continuous improvement is an ongoing, cyclical process of regularly evaluating and working to improve a product, service, or process, either by a series of incremental improvements or by larger initiatives that may result in breakthrough improvements. A common way to establish continuous improvement in a QAIP is to use a planned, methodological structure such as the Deming cycle, also called the Plan, Do, Check, Act model, as shown in Exhibit 1-15.

Exhibit 1-15: Deming Cycle (Plan, Do, Check, Act)

As quality guru W. Edwards Deming said, “It is not enough to do your best. You must know what to do, and then do your best.” Using a sound measurement and feedback loop provides information on what the internal audit activity or internal auditor needs to do to continually improve.

Embedding continuous improvement into internal audit operations requires:

- Setting up a performance measurement framework.
- Regularly reporting on quality metrics and deviations from targets so that corrective actions can be planned and implemented as needed.
- Periodically reviewing quality criteria themselves for continued validity.

Continuous improvement is necessary regardless of whether the internal audit activity is new or established. It is a continuing journey that can add value regardless of internal audit complexity level.

QAIP

A QAIP is an ongoing and periodic assessment of all assurance and consulting work performed by the internal audit activity. These ongoing and periodic assessments are composed of:

- Rigorous, comprehensive processes.
- Continuous supervision and testing of internal audit assurance and consulting work.
- Periodic evaluations of conformance to the IPPF.
- Ongoing measurements and analyses, assessments, and implementation of improvements.

QAIP evaluation areas can be at the internal audit activity level and the internal audit engagement level. The following things need to be evaluated (some of which are at the internal audit activity level only):

- Conformance to the IPPF
- Adequacy of the internal audit activity's charter, goals, objectives, policies, and procedures
- Completeness of coverage of the entire audit universe
- Internal audit activity's contribution to the organization's governance, risk management, and control (GRC) processes
- Internal audit activity compliance with applicable laws, regulations, and government or industry standards
- Internal audit operational risks
- Effectiveness of continuous improvement activities and adoption of best practices
- Whether the internal audit activity adds value, improves the organization's operations, and contributes to the attainment of objectives

To implement Standard 1300, the CAE must consider requirements related to its five essential components:

- Internal assessments
- External assessments
- Communication of QAIP results
- Proper use of a conformance statement
- Disclosure of nonconformance

Each of these components is addressed in this section.

Note that Standard 1310 requires both internal and external assessments.



Attribute Standard 1310, "Requirements of the Quality Assurance and Improvement Program"

The quality assurance and improvement program must include both internal and external assessments.

In preparing to do internal assessments or arranging for external assessments, the CAE is responsible for:

- Gaining awareness of prior results from both internal and external assessments.
- Implementing any action plans that come out of internal or external assessments.

General considerations for the scope of internal and external assessments include:

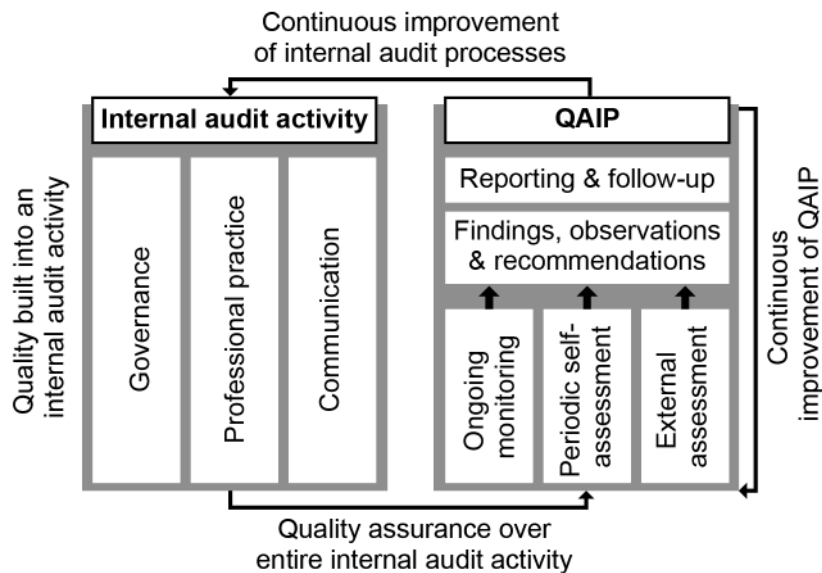
- Ensuring that the scope falls within the responsibilities of the CAE and the internal audit activity as documented in the internal audit charter.

- Considering the expectations of senior management, the internal audit activity, and other stakeholders.
- Assessing internal audit practices against the *Standards* and any internal audit-related regulatory requirements.

Establishing a QAIP Program

Exhibit 1-16 shows the QAIP framework adapted from the IIA’s “Quality Assurance and Improvement Program” Practice Guide.

Exhibit 1-16: QAIP Framework



While CAEs may develop whatever framework works for their internal audit activity, this framework builds quality into the activity by explicitly addressing internal audit governance, professional practice, and communication programs. Exhibit 1-17 expands upon these programs.

Exhibit 1-17: Program-Based QAIP Structure

Governance	Professional Practice	Communication
<ul style="list-style-type: none"> • Internal audit charter • IPPF • Legislation • Independence and objectivity • Risk management • Resourcing 	<ul style="list-style-type: none"> • Rules and responsibilities • Risk-based audit planning • Other assurance providers • Audit engagement planning • Performing the engagement • Proficiency and due professional care • Quality assurance 	<ul style="list-style-type: none"> • Communicating results • Follow-up • Stakeholder communications

For each of the program elements listed in Exhibit 1-17:

1. An objective is defined.
2. Criteria are identified for each objective. (Their number may vary by objective.)
3. A quality assurance process (methodology) is developed for each criterion.
4. An assessment is made per the quality assurance process.
5. Results are captured back into the continuous improvement cycle and reported to stakeholders.

The right side of Exhibit 1-16 shows the components of the QAIP program. These processes provide quality assurance over the entire internal audit activity and result in findings, observations, and recommendations as well as reporting and follow-up steps. The arrows around the right and top of the diagram show how internal audit processes and the QAIP program are reviewed to keep them current and continually improved for efficiency and effectiveness.

QAIP Internal Assessments (Standard 1311)



Attribute Standard 1311, "Internal Assessments"

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

Note that part of the interpretation of Standard 1311 indicates that sufficient knowledge *requires at least an understanding of all elements of the International Professional Practices Framework*.

Internal assessments in a QAIP program address both the internal audit activity as a whole and the internal audit engagement level.

At the internal audit activity or organization-wide level, the CAE provides assurance that:

- Policies and procedures are formally documented and are in conformance with the IPPF, and audit work conforms to these policies and procedures.
- Audit work achieves the general purposes and responsibilities described in the internal audit charter.
- Audit work is performed per quality standards and has adequate supervision.
- Audit work conforms to the IPPF or at least correctly reflects the internal audit activity's statement of conformance (e.g., partially conforms).

- Internal audit work meets stakeholder expectations.
- The internal audit activity adds value and improves the organization's operations.
- Resources for the internal audit activity are used efficiently and effectively.
- Appropriate mechanisms are established and used to follow up on management actions in response to audit recommendations.
- Post-engagement client surveys, lessons learned, self-assessments, and other continuous improvements are done.

At the internal audit engagement level, the engagement supervisor provides assurance that:

- Appropriate processes have been used to translate audit plans into specific, appropriately resourced audit engagements.
- Planning, fieldwork, conduct, and reporting/communicating results demonstrate conformance to the IPPF.

For any internal assessment, where appropriate, the assessor(s) provide recommendations for improvement, corrective action plans, and progress against completion.

Ongoing Monitoring

According to Standard 1311's interpretation, *ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity*. Ongoing monitoring is part of routine policies, practices, processes, tools, and information necessary for evaluating conformance to the IPPF. The focus of ongoing monitoring is at the engagement level. It is achieved through continuous activities conducted on an engagement-by-engagement basis, including engagement supervision, standardized work practices, workpaper procedures and sign-offs, report reviews, assessments of areas of weakness, and any related action plans developed to address those weaknesses.

CAEs may review innovations and best practices to develop a number of ongoing monitoring tools for team use, including:

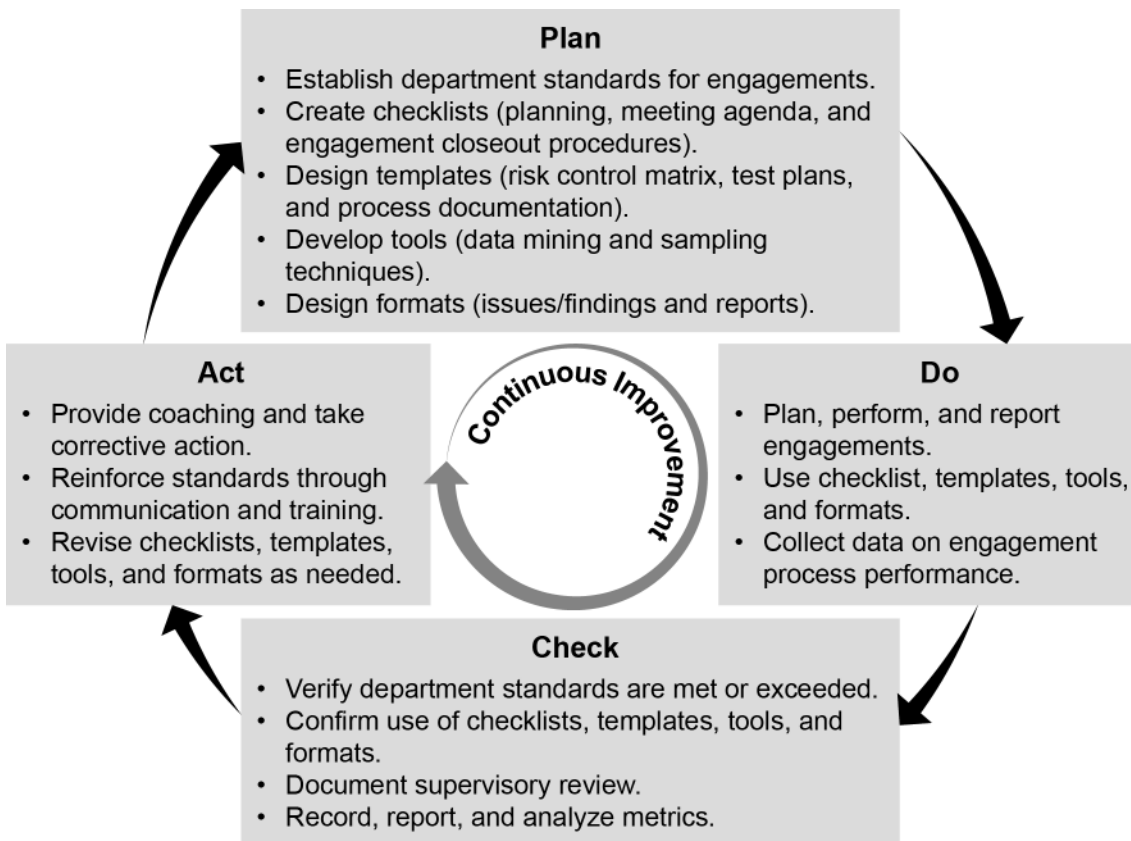
- Pre-fieldwork audit engagement readiness assessments, including a pre-approved audit scope, clear staff assignments, and budgeted staff hours.
- Templates to ensure consistency between engagements.
- Checklists or other automation tools for compliance areas.
- Key performance indicators (KPIs) such as number of auditors, years of experience, professional development hours, engagement timeliness, and stakeholder satisfaction.

- Tools to promote efficiency and effectiveness, including budgets, timekeeping systems, audit plan completion status, and monitoring and controlling using variance data.
- Processes to collect and analyze feedback from internal audit clients and stakeholders regarding the efficiency and effectiveness of internal audit teams.

Ongoing monitoring requires adequate supervision in all phases of the engagement, including during the planning, performance, and communication phases. The audit supervisor sets clear expectations during planning and promotes ongoing communications during performance with the supervisor and among team members. The responsible supervising individual follows best practices for workpaper review procedures, including timely sign-off.

Exhibit 1-18 shows an example of how ongoing monitoring can use the Deming cycle (the Plan, Do, Check, Act model), introduced earlier in the topic, to continually improve ongoing monitoring processes. (Note that the bullets are not a comprehensive list.)

Exhibit 1-18: Deming Cycle (PDCA) Applied to Ongoing Monitoring



Source: *Quality Assessment Manual for the Internal Audit Activity*. © 2017, IIA Foundation.

Consistent processes are needed for gathering, summarizing, and analyzing measurement data. Responsibility for measuring and validating data should be established as for any other audit engagement. A continuous improvement framework for ongoing monitoring like the one in Exhibit 1-18 helps the internal audit activity get to this desired level of consistency and quality.

Periodic Self-Assessments

Periodic-self-assessments as part of a QAIP are conducted to evaluate conformance to the IPPF, according to the interpretation of Standard 1311. These self-assessments are also the basis for self-assessments with independent validation (SAIVs), as is discussed later. The scope of a periodic self-assessment includes evaluating the:

- Quality and supervision of work performed.
- Adequacy and appropriateness of internal audit policies and procedures.
- Ways in which the internal audit activity adds value.
- Achievement of KPIs.
- Degree to which stakeholder expectations are met.

The focus of a periodic self-assessment needs to be on a holistic, comprehensive review of the *Standards*, the Code of Ethics, and the internal audit activity. A holistic view also includes a focus on the quality of audit work and adherence to internal audit methodology, identifying and implementing improvements, and monitoring and controlling the activity's efficiency and effectiveness.

A periodic self-assessment is typically led by a senior member of the internal audit activity who has extensive experience with the IPPF and is a Certified Internal Auditor (CIA). Self-assessments can include persons who are on the internal audit team or who are assigned elsewhere. This type of assessment is a good IPPF training tool for internal audit staff. The self-assessment can also be done by a dedicated quality assurance team given sufficient knowledge of the IPPF and internal audit practices.

Exhibit 1-19 shows elements that could be included in a periodic self-assessment process, including some optional components.