Chapter 2

EXTERNAL QUALITY ASSESSMENT:
A BUSINESS-FOCUSED QUALITY ASSESSMENT

Overview of the External Quality Assessment Process

Chapter 1 of this Quality Assessment Manual discusses the concepts of the business-focused approach to QA. While these assessments should still result in an opinion on the IA activity’s conformance to The IIA’s Standards, stronger emphasis will be on suggestions for enhancing audit processes and other ways to improve the effectiveness of the IA activity. This approach embraces the successful practices of the profession and emphasizes risk management, control, and governance processes as important areas for auditors to consider. QA recommendations are focused on opportunities for improvement and are offered to enhance the IA activity’s ability to add value.

The external QA process involves the CAE in deciding the scope of the QA, as well as any specific objectives. The QA team leader and members are selected based on the QA scope and objectives, as established by the CAE and/or others requesting the QA. Team members should be well suited to conduct the QA. Team leaders are generally former CAEs. The remaining team members are, or have been, practitioners at the manager level or higher, and some should have appropriate industry experience and other useful backgrounds. This process should also ensure that the approach gives full consideration to the expectations of executive management and the audit committee.

Although peer reviews among three or more organizations meet the external QA requirements, reciprocal peer reviews between two organizations do not pass the independence test. External QAs or self-assessments can be conducted through peer reviews instead of utilizing external service providers. Internal auditors from at least three different organizations come together to form a pool of professionals, all of whom are qualified to conduct external assessments. One type of peer review team consists of members from different organizations within an industry or other affinity group, regional association, or other group of organizations. Because assuring appropriate composition and assignments of the teams is imperative, administration of this process can be quite challenging.
The following basic objectives should be achieved in an external QA:

1. Assess the efficiency and effectiveness of the IA activity in light of its charter, the expectations of the board (usually represented by an oversight body, such as an audit committee), executive management, and the CAE. Consider the IA 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 IA activity is performing at less than an effective level or is not in conformance to one or more of the Standards.

2. Provide an opinion on the IA activity’s conformance to the spirit and intent of the Standards.

3. Identify opportunities and offer ideas and counsel to the CAE and staff for improving their performance and that of the IA activity, raising the value added to management and the audit committee. Through its audits and consulting work, the IA activity will enhance the image, perceptions, and credibility of the group within the organization.

The objectives listed above can be modified and others can be added to satisfy the needs of customer organizations. Benchmarking and industry comparisons for internal audit topics and practices should be performed. Sources such as The IIA’s Global Audit Information Network (GAIN), professional articles, research publications, and recent other guidance can provide this information. Acceptance of the reviewer’s proposal starts the search for qualified team members for the agreed-upon time for the on-site visit. When the team has been selected, a “self-assessment” should be prepared to obtain information about the organization and the IA activity in advance of the on-site visit.

The following 12-point process, followed by the provider, ensures the customer’s involvement in, and satisfaction with, a value-added experience:

1. Select and train (as needed) the QA team.

2. Review the self-assessment completed by the IA activity and clarify any questions or concerns.

3. Make a preliminary visit to the organization to gather further information, add details to the work plan, select and schedule interviews with the IA activity’s stakeholders and staff, and otherwise prepare for the on-site visit.

4. Use customer and staff surveys and summaries for guidance during on-site interviews and examination of documentation.

5. Perform on-site work, including review of administrative policies and procedures; consideration of enterprise risk, governance, and audit risk assessment in audit planning, workpaper, and report reviews for selected audits and consulting projects; review of the number and skills of staff and their continuing professional education; and evaluation of the capabilities and adequacy of audit coverage in information technology areas.
6. Interview selected members of the board (audit committee), executive management, operating managers, and internal audit staff, focusing on organizational risks and objectives and the IA activity’s effectiveness at remaining current and adding value with respect thereto.

7. Consider other monitoring functions, similar to internal auditing, which may not be included in the IA activity, such as evaluation, investigation, quality assurance, and process enhancement. Review and assess the coordination of the IA activity with the work of the independent auditors.

8. Evaluate the IA activity’s conformance to the *Standards* and other relevant standards.

9. Review quality/process improvement actions currently under way and planned for the near term. Also consider successful practices appropriate to the organization’s environment.

10. Provide a summary of issues and recommendations, and hold a closing conference with the CAE and/or other requestors of the QA.

11. Draft a report, obtain the customer’s comments and responses to recommendations, and issue a final report.

12. Hold a follow-up executive conference (optional).

Any of the above points may be tailored, and others may be added, to meet the IA activity’s and the organization’s needs.

**QA Team**

**QA Team Selection and Qualifications**

IIA Standard 1312: External Assessments specifies that the QA must be conducted “by a qualified, independent reviewer or review team from outside the organization.” Qualified individuals are persons with the technical proficiency, business experience, and educational background appropriate for the audit activities to be reviewed. This could include internal auditors from outside the organization, outside consultants, or independent outside auditors, but preferably not the external audit firm that audits the organization’s financial statements. “From outside the organization” means not a part of, or under the control of, the corporate entity or other organizations to which the IA activity is related.

The following is a list of the usual qualifications and criteria needed by an external QA team. Specific engagements may require additional specific qualifications.

**Objectivity** — The external QA 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 IA activity. To ensure freedom from bias in the QA, there should not be any rela-
tionship, either directly or indirectly, between the organization and the external QA team that is, or appears to be, a conflict of interest. Such relationships could significantly negate the benefits of the QA.

**Experience** — The external QA team should comprise personnel of at least managerial level. The team leader should have experience that is comparable to the CAE of the IA activity being reviewed. Each team member should have a thorough understanding of current internal audit practices, the Standards, and its application; sound judgment; and good communication and analytical skills. The external QA team should possess, or have ready access to, all of the necessary technical expertise (e.g., information technology, risk management, internal audit attributes, management consulting, and internal audit management). Knowledge of the organization’s industry, service, or IA activity by at least one team member is an important consideration to be evaluated by the customer.

**Size of the QA Team** — The hours that are required for an external QA depend upon the scope of work, objectives, size, geographic locations, and structure of the IA activity and the organization. Generally, at least two team members are needed to provide a broader perspective and complete the QA within a reasonable length of time.

**Self-assessment (Tool 2A)**

The self-assessment is a comprehensive questionnaire with attached documentation to be completed by or under the direction of the CAE and provided to the team leader before the preliminary visit (usually at least one month before the on-site visit). The answers provide specific information about the customer organization and the internal audit staff. The team’s review of the information before the on-site work prepares team members for their assignments once on site. Using this tool, the team can often identify potential strengths of the audit function as well as potential opportunities for improvement.

Tool 2A, Self-assessment Guide, includes:

1. Documents such as organization charts, relevant policy statements, financial statements, etc.
2. Information and statistical data about the IA activity.
3. Discussions about the IA activity (objectives, audit scope, personnel, etc.).
4. Other pertinent data deemed relevant by the team leader.

Because of the self-assessment’s complexity and the quantity of detailed information requested, it may not be practicable to have all of it completed before the preliminary meeting. At a minimum, the team leaders should be provided a detailed organization chart for the entire organization, including names of the audit committee (or similar oversight body of the board) members, senior executive management, and upper middle staff and operations management. Also required is an organization chart of the IA activity, the current assurance and consulting project schedule, and a list of assurance and consulting engagements completed in the last 12 months. These are used to select individuals for interviews and audit products for the QA. The selected names and audit products should be provided.
at the preliminary visit so that the CAE may get interviews scheduled and have available audit product documentation, either paper or automated, before the on-site visit. It is important that interviews be scheduled as early as possible due to the demands upon senior executives and upper middle management of any organization.

Remaining items of the self-assessment should be available for review on site, if not available earlier.

**Preliminary Visit**

The team leader should make a preliminary visit or telephone the CAE to:

1. Confirm any previous discussions about objectives and special needs.

2. Identify audit customers from the past year to receive surveys.

3. For activities with a large staff, discuss and arrange for a staff survey to be conducted.

4. Receive and discuss the self-assessment in its entirety or at least the information needed for interview scheduling and audit product selection for review.

5. Select interview candidates, usually the chair of the audit committee (or other board oversight body), the chief executive officer, president or equivalent, selected executive managers, other operating managers as determined by the team leader and the CAE, and the engagement partner (or, if not available, the manager) of the external audit firm.

6. Arrange administrative details.

7. Prepare a brief summary of the preliminary visit, including items for later attention and impressions of the organization and the IA activity.

Tool 1, Preparation and Planning, provides guidance for the team leader. Tool 1A, Preparation and Planning, provides guidance for the self-assessment team leader.

**Audit Customer Survey, Staff Survey, and Summaries**

Surveys can provide excellent feedback as to the IA activity’s effectiveness and potential opportunities for improvement. The survey of audit customers should precede the on-site work, and e-mail or other online methodology may be used for direct survey client/review team contact to expedite survey responses. In any event, the survey should be conducted early enough for its completion, return, and analysis of survey responses before the team goes on site. During this phase, the following items should be considered.

**Surveys Prepared for External QAs** — Tool 4, Audit Client Survey, for an external quality assess-
ment ensures complete anonymity. Therefore, full advantage should be taken of an externally administered survey. The CAE may want to expand the survey and incorporate additional areas other than those outlined in Tool 4. However, the basic questions of Tool 4 should be retained intact so that valid comparisons may be made with averages of customer input in The IIA’s historical survey database.

Principles of Questionnaire Development — The prime ingredients in a valid survey are anonymity, reader comprehension, and a representative sample. In developing an external survey, every attempt should be made to reassure audit customers that their responses will be kept confidential. This will be enhanced through direct e-mail or other online contact between individuals surveyed and the reviewing entity. (In certain situations there may be variations to the anonymity rule.) If an organization is comprised of more than one function or operating location with sufficient potential respondents, it may be helpful to code the responses by each function, operating location, or regional area. In this way, strengths or weaknesses unique to one function or location can be identified and readily addressed, while still protecting the anonymity of the respondents. Respondents should be advised of any coding and how it will be used. This could be done through the CAE’s cover letter or e-mail to the respondents.

Care should be taken to word the survey questions clearly for maximum reader comprehension and to be sure that responses are requested in a clear, consistent, and easy-to-evaluate style. Misunderstandings may result in inaccurate responses and diminish the validity of the survey.

In developing an external customer survey, a review of the questions and results from the IA activity’s routine customer satisfaction surveys (if conducted), such as those used during internal reviews or subsequent to each audit or consulting engagement, may be helpful. Specific questions can be developed to determine whether there has been any improvement in previously identified weak areas.

Surveys and Interviews — A relatively quick and inexpensive way to obtain viewpoints from large, geographically dispersed audit customers is through the use of surveys. Conversely, personal interviews work well with the board (audit committee), executive management, the audit staff, or in special situations. A survey is a more objective way to gather information, as interviewers may inject personal biases in the way questions are posed and answers recorded.

Criteria for Evaluating Survey Responses — The surveys will be summarized by the reviewer and appropriately weighted. Also, responses to open-ended questions and other comments by the respondents will be provided verbatim, keeping in mind the anonymity requirement. It may also be informative to stratify answers by operating location, the time period of the audit, the audit type, and levels of management of respondents.

The CAE should receive a summary of survey results. The summary generally gives the statistical results to the questions and the essence of the comments offered by the customers. The external QA team, perhaps with input from the CAE, will need to interpret whether survey information has uncovered favorable or unfavorable ratings or trends. In this regard, a historical comparison against the total database of prior customers may show significant trends that deserve emphasis or indicate a need for improvement. The CAE should be encouraged to use this information during training sessions
with the internal audit staff to emphasize positive results and highlight areas that need improvement.

**A Recap of Audit Customer Surveys** — Customer surveys provide unique insight into internal audit activities and relationships with the customers. The following guidelines should be used in developing a survey for a QA.

1. Explain the survey process (due dates, use of results, and benefits to the respondent).
2. Ensure anonymity of respondent.
4. Concentrate on key areas.
5. Ensure that each question evaluates only one item.
6. Use objective wording.
7. Use a clearly understood rating scale.
8. Select a representative sample of audit customers, ensuring that each one has an equal opportunity of being selected, or send a survey to each customer served within a recent period (e.g., the past 12 months).

**Internal Audit Staff Surveys** — Generally, interviews with internal audit staff are conducted during the on-site visit. While it is desirable to interview most, if not all, the staff, this is not practical in large activities. In such cases, it may be beneficial to conduct a survey of all the staff by mail or e-mail, which should not preclude follow-up interviews of selected IA activity personnel. The survey is an efficient means to obtain information from a large and/or geographically dispersed staff. Responses to the surveys are sent by the respondents directly to the reviewing entity for summarization. Tool 5, Internal Audit Activity Staff Survey, offers suggested topics and questions.

The CAE should receive a summary of survey results. The summary may give the statistical results to the questions and the essence of the comments offered by the staff. The CAE should be encouraged to use this information during sessions with the IA activity’s staff to emphasize positive results and address those areas needing attention.

**On-site Procedures**

On-site work is the most comprehensive element of a QA. In addition to the interviews mentioned above, it involves reviews of the IA activity’s audits and consulting engagements, reports, and supporting documentation; administrative and operating policies, practices, procedures, and records; staffing knowledge and skills, especially in information technology areas; risk assessment; controls
monitoring; interaction with governance participants; successful practices; and other evidence of continuous improvement. Also, the QA team reviews reports for, and communications with, management and the board (audit committee) to assess the extent that the IA activity meets objectives and adds value. All the information is brought together at this time so that a conclusion can be reached and an evaluation made that is based on the professional judgment of the QA team. On-site work usually is for a period of one to two weeks, depending on the scope of work and objectives of the QA and the size, geographic dispersion, and structure of the IA activity. Chapter 5 provides detailed program guidance, and covers:

1. Planning and preparation.
2. Board oversight (audit committee).
3. Executive and performance management interviews.
4. Policy statement on controlling an internal audit charter.
5. Audit practice environment.
6. The functions of planning, organizing, staffing, directing and coordinating, and controlling.
7. Issues and evaluation, using the Standards as the criteria for the evaluation opinion.
8. Closing conference and reporting.

The on-site 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.

**Interviews with Selected Members of the Board, Executive and Operating Managers, and Internal Audit Staff**

Interviews with members of the board may involve the chair and other members of the audit committee (or other body charged with oversight of the IA activity). Interviews with executive management involve the most senior executive, the direct reports of the most senior executive, and usually selected officers and operating managers. These customer interviews elicit views on the value of audits and consulting engagements, client expectations, the professionalism of the audit staff, and areas for improving the IA activity (and other monitoring functions, as appropriate). They may also elicit views on the effectiveness of risk management, organizational controls and accountability, and other general management areas not strictly within the scope of the QA, but potential issues for inclusion in the QA report.

While it is best to conduct these interviews at the beginning of the on-site visit, they may continue throughout the visit to accommodate the busy schedules of executive management. Interviews with the IA activity’s staff are also conducted during the on-site phase. These interviews may include se-
lecting at random staff that represent the various levels and locations of the IA activity and/or staff members who specifically requested interviews in their survey responses. Another option to consider is the use of focus groups, particularly when the staff is large.

**Evaluating the IA Activity**

The most important aspect of the assessment is the QA team’s evaluation of the IA activity’s conformity to the Standards and its charter, along with the extent of its use of current successful practices and its program of continuous improvement. These evaluations will also disclose opportunities for improvement. This is the culmination of the team’s analysis of surveys, interviews, and documentation QAs. As appropriate, the experienced practitioners on the QA team will recommend to the CAE ways for the IA activity to enhance compliance with the Standards, add value for clients, and generally be a catalyst for positive change in the organization. Finally, the team will exercise its professional judgment to render an opinion as to whether or not the IA activity conforms to the Standards.

**Summary of Issues, Recommendations, and Closing Conference**

Issues should be brought to the attention of the CAE as they come up throughout the QA and discussed as appropriate. The closing conference should be regarded as an opportunity to summarize and formalize the views of the QA team and the CAE.

The QA 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 the team members with a framework for the closing conference.

The CAE, with advice from the team leader, will decide who will attend the closing conference. Since the individual observations should have been discussed with audit management throughout the QA, 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.

Some CAEs may use the closing conference as the initial report and distribute the written summary to the board (audit committee) and/or senior executives. It is essential that no conclusions or recommendations be included in the final QA report that were not presented or discussed at the closing conference.

**Reporting**

After the closing conference, a draft report is prepared (see Tools 20 and 21). When the team leader completes the draft, copies are sent to the QA team for comment. Comments are considered and, as appropriate, incorporated into the draft report sent to the CAE. The CAE is requested to respond to
the recommendations and provide an action plan. The CAE then may choose to have the action plan follow the recommendations in the final report or have the recommendations removed and have only the action plans follow the observations.

The final report, in conjunction with the CAE’s response or action plan, will usually be addressed to the CAE, with copies included to 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, as agreed upon before the start of the QA. Additional copies will be distributed at the CAE’s request. In those instances where someone other than the CAE has requested the QA (e.g., the audit committee), the report will be addressed appropriately.

**Follow-up Executive Conference**

As a final (optional) benefit of the QA, the IA activity may schedule an executive conference to follow up on the results and recommendations. At the discretion of the CAE (or whoever authorized the QA), arrangements may be made to present the QA results to the audit committee and/or executive management. The advantage is for an objective source to reinforce the value of internal auditing and promote the suggested improvements. Experience has shown that these meetings usually improve perceptions of internal auditing and the CAE.

In addition, the reviewers may provide follow-up consulting services. These services offer customers concentrated topic-specific assistance, based on current and leading-edge successful practices, to enhance their IA activity. These services can be discussed, as appropriate, during or at the end of the QA.