The Value of Quality Assurance and Improvement Programs

A Global Perspective
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EXECUTIVE SUMMARY

Using input from more than 1,000 respondents in 46 countries, this report evaluates the current state of quality assurance and improvement programs (QAIPs) around the world and offers practical information about leading practices. The project is based on a global survey conducted in 2012 by L’Institut Français des Auditeurs et Contrôleurs Internes (IIA–France), which also conducted interviews with 30 chief audit executives (CAEs) and eight other stakeholders from multiple countries.

Key findings from the project include:

- Approximately 60% of survey respondents indicate that they either have a QAIP in place or will implement one within 12 months. Of this group, 69% conducted an external assessment at least once (see chapters 1 and 5.)

- Respondents indicate that their QAIPs added value to their organizations through:
  - Increasing management’s understanding of risk (about 80%)
  - Providing better information for decision-making (70%)
  - Supporting implementation of the organization’s strategy (65%)
  - Identifying cost savings (61%)
  - Decreasing fraud acts (62%)
  - Promoting coordination with other assurance providers (57%) (see chapter 6)

- Respondents indicate that their QAIPs add value to their internal audit activities in particular through:
  - Identifying critical areas and points for improvement (83%)
  - Documenting and evaluating the performance of critical processes (76%)
  - Enhancing internal auditors’ professionalism and specialized skills (75%) (see chapter 2).

- The most commonly cited challenges to building and sustaining a QAIP were:
  - Financial cost (54%)
  - Lack of staff (51%)
  - Increased bureaucratization (44%)
  - Increased paper workload (41%) (see chapter 3)
Many internal audit activities reduce the cost and time for their QAIPs by integrating ongoing monitoring and periodic internal assessments into their normal audit operations (see chapter 4).

CAEs can use this report to identify key factors for successfully implementing QAIPs and communicate the benefits of QAIPs to audit committees and boards. The research results described in this report also provide useful suggestions for CAEs as they engage their stakeholders in discussions regarding the value added by internal audit.
ACKNOWLEDGMENTS

Carrying out such a global research project would not have been possible without huge support from various insightful people around the world. First, we want to thank the review team. Barry Ackers helped us focus on a clear and plain message. Jean Coroller was of great assistance throughout the project, including securing the involvement of key stakeholders. Debi Roth was involved in identifying potential interviewees from North America and conducting interviews for that region. Gerrit Sarens provided constructive, challenging remarks based on his own experience in academic research and professional studies. Sue Ulrey supported us with her professional knowledge and network. The Institute of Internal Auditors Research Foundation’s (IIARF’s) Committee of Research and Education Advisors (CREA) provided expertise and challenging input throughout the project. Each CREA member helped us focus on project objectives and develop key messages for practitioners.

The research would have been difficult to complete without the continuous support of Selma Kuurstra, our project manager. She ensured that each step of the research stayed on track and provided useful contacts within the IIA network. Deborah Poulalion was of great help, especially at the initiation of the project and the design of this report. Patrick Copeland served as contributing editor in organizing our findings within the chapter structure he developed for the report.

We could not have conducted the survey and interviews without the collaboration of IIA institutes and individuals such as:

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Claudelle Von Eck, CEO, IIA–South Africa
Norbert Wagner, IIA–Austria

We also thank all of the anonymous contributors (CAEs, audit committee members, external auditors, and executive management) who participated in interviews and shared their experiences, issues, and best practices with the research team.
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INTRODUCTION

Given the pace of change involving a variety of environmental factors affecting organizations around the globe today, successful internal auditors supporting these organizations must focus on:

- Meeting or exceeding their stakeholders’ expectations
- Delivering high-quality services resulting from disciplined processes performed by competent personnel
- Helping their organizations seize opportunities in pursuit of strategic and operational objectives

The Institute of Internal Auditors (IIA) has promulgated authoritative guidance contained in its International Professional Practices Framework (IPPF), affirming that an internal audit activity must be “designed to add value and improve an organization’s operations.” To support proper design and effective functioning of internal audit operations, the IPPF’s mandatory guidance (as outlined in Standard 1300: Quality Assurance and Improvement Program) requires a CAE to develop and maintain a QAIP involving all aspects of the internal audit activity.

According to survey results compiled within The IIA’s 2010 Common Body of Knowledge (CBOK) survey data, internal audit practitioners worldwide indicate that Standard 1300 has the lowest conformance rating of any standard within the IPPF. Only 31% of the CBOK 2010 respondents stated that they had a QAIP in place.

RESEARCH OBJECTIVES

The IIA Research Foundation (IIARF) sponsored this project to address the following questions:

- What are the business reasons why an internal audit activity should invest in building a QAIP?
- How does developing a QAIP add value to the daily operations of an internal audit activity?
- What are the challenges confronting internal auditors around the world during establishment of a QAIP?
- What are the key characteristics of effective QAIPs?
- How does a successful QAIP enable an internal audit activity to achieve its mission of addressing stakeholder needs and adding value to the organization it supports?
Answering these questions should provide information that enables practitioners who do not have a QAIP in place to begin the process of building one. Hopefully, such efforts will lead to a higher rate of conformance with Standard 1300 over time.

**QUALITY ASSURANCE AND IMPROVEMENT PROGRAMS**

This report offers practical information for CAEs and their stakeholders on how to establish and maintain an effective QAIP. The research results should facilitate discussions between CAEs, senior management, and the board regarding decisions involving investments in a QAIP. For example, CAEs can use findings from this report to highlight how time and money spent on a QAIP will benefit their stakeholders. For those who have already implemented a QAIP, the report should confirm the value derived from their efforts.

**OVERVIEW**

In chapter 1, we examine the demographics of the survey results to establish their credibility for analysis and interpretation by internal audit practitioners as they build and maintain successful QAIPs. We developed a comprehensive survey to understand current trends regarding QAIPs and distributed it to a broad cross-section of internal audit practitioners. We received more than 1,000 usable individual responses representing diverse regions and a variety of industries and organizational structures. The presentation of the survey results begins in this chapter.

Our focus in chapter 2 is to address the first two questions listed in the research objectives. We review the reasons to invest in a QAIP and discuss the value derived by internal audit activities from their successful implementation of a sustainable QAIP. We describe the research confirming that internal audit activities that have established a QAIP indicate they are achieving benefits that justify their level of effort in building their QAIP.

In chapter 3, we explore challenges confronting practitioners as they begin investing in a QAIP. In the research, we identify issues that are consistent with themes articulated within CBOK 2010.

We review characteristics of successful internal quality assessments in chapter 4 and successful external quality assessments in chapter 5. We describe how integrating ongoing monitoring and periodic assessments within internal audit’s normal operations establishes a foundation for building a successful QAIP. We present research results from practitioners who have implemented a QAIP, confirming that an external quality assessment is an essential element of their quality program.

In chapter 6, we discuss the four areas that survey respondents affirmed their internal audit activities add value: 1) risk management, 2) execution of organizational strategy, 3) operational effectiveness, and 4) coordination with other assurance providers.

In chapter 7, we review communication of the results of a QAIP and highlight an opportunity for CAEs to report a return on investment related to an effective QAIP. We also explore options for expanded external communication of QAIP results.

In addition to ensuring conformance with IPPF mandatory guidance, an effective QAIP assures the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. In a time of increased focus on internal audit’s value, the benefits resulting from a QAIP empower internal audit activities to add value to the organizations they support. We believe the research results described in this report provide useful suggestions for CAEs as they engage their stakeholders in discussions regarding the value added by internal audit.
The research demonstrates a clear alignment of value added from an effective QAIP with the most important reasons why an internal audit activity should invest in one. Based on this outcome, we conclude that internal audit activities that establish successful QAIPs are achieving benefits that justify their level of effort in building them.
Chapter 1

A GLOBAL SURVEY REGARDING THE STATE OF QUALITY ASSURANCE AND IMPROVEMENT PROGRAMS

This chapter reviews the demographics of the survey results to establish their credibility for analysis and interpretation by internal audit practitioners as they build and maintain successful QAIPs. We developed a comprehensive survey to understand current trends regarding QAIPs and distributed it to a broad cross-section of internal audit practitioners. We received more than 1,000 usable individual responses representing 46 countries and a variety of industries and organizational structures. Appendix A contains the complete text of the survey.

As follow-up to the survey, we conducted interviews with 20 CAEs from different regions, countries, and industries. Only three of these individuals had not implemented any portion of a QAIP. We conducted eight additional interviews that included audit committee members, external auditors, and financial management. We include comments from the interviews in the following chapters where appropriate.

KEY CHARACTERISTICS OF SURVEY RESPONDENTS

- More than 60% of respondents indicate they have a QAIP in place or will implement one within 12 months.
- No single geographic area or industry dominated the survey responses.
- Almost half the survey respondents came from internal audit activities that have been in place for 10 years or less. The same portion of respondents came from internal audit activities with five or fewer employees.
- Of the respondents, 80% indicate there is an audit committee or equivalent within their organizations.

IMPLICATIONS FOR PRACTITIONERS

- As a majority of survey respondents (most of whom are CAEs) have implemented or are in the process of implementing QAIPs, internal audit activities that have not started building their QAIP should look to survey results for ideas and suggestions on how to begin the process.
- Survey results have broad application across regions, industries, and organizational structures given the diversity evident in the body of responses.
- The survey is relevant for newly formed and/or smaller audit activities.
Internal audit activities that have an audit committee or equivalent might assess how well they are leveraging it in establishing or maintaining their QAIP.

Internal audit activities that do not have an audit committee or equivalent might assess how governance is established within their organizations, and whether or not they are leveraging that governance structure in establishing and maintaining their QAIP.

EXISTING QAIPS

The goal of one of the key research questions was to find out how many respondents have implemented a QAIP.

As illustrated in figure 1.1, approximately 61% of respondents indicated that they have a QAIP in place or will implement one within 12 months. Thus, the majority of the overall survey results are from internal audit activities that are actively developing and maintaining a QAIP. This attribute of the survey demographic establishes credibility for information provided in this report related to reasons to invest in QAIPs, characteristics of successful QAIPs, and value created for stakeholders resulting from QAIPs.
The CBOK 2010 survey question regarding internal audit quality was slightly more precise than our survey question 11b, as CBOK 2010 explicitly asked about conformance with Standard 1300. Table 1.1 highlights that 45% of CBOK respondents stated they had a QAIP, with 31% indicating conformance with Standard 1300 and 14% reporting they were not in full compliance with the standard. Therefore, results of the two surveys (CBOK 2010 and our survey) are somewhat difficult to compare, but the results are similar.

**POSITION OF RESPONDENTS WITHIN INTERNAL AUDIT**

In this survey, there was a high level of participation by internal audit leaders, which should enhance the reliability of the research results.

As demonstrated in table 1.2, an overwhelming majority of respondents hold senior leadership positions within internal audit (CAE or audit director). Establishing successful QAIPs is the responsibility of internal audit leaders who set the tone at the top. Hearing from this group regarding successes they achieved and challenges they faced in creating their QAIPs provides other internal audit practitioners with reliable, relevant, and useful information to consider as they begin constructing their own QAIPs.

| Table 1.1. Comparison of CBOK 2010 Survey Responses with the 2012 QAIP Survey |
|---------------------------------|-----------------|-----------------|
|                                 | CBOK 2010 | IIARF 2012 |
| No QAIP                         | 28%       | 39%       |
| Don't know                      | 6%        |           |
| To be implemented               | 21%       | 15%       |
| QAIP in place                   | 31%       | 46%       |
| Not in full compliance          | 14%       |           |

Question 3a: What is your current position or level within internal audit? (Total valid responses: 1,006)

<table>
<thead>
<tr>
<th>Table 1.2. Position in the Organization</th>
</tr>
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<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Chief audit executive (CAE)</td>
</tr>
<tr>
<td>Audit director</td>
</tr>
<tr>
<td>Internal auditor</td>
</tr>
<tr>
<td>Other position</td>
</tr>
</tbody>
</table>

As demonstrated in table 1.2, an overwhelming majority of respondents hold senior leadership positions within internal audit (CAE or audit director). Establishing successful QAIPs is the responsibility of internal audit leaders who set the tone at the top. Hearing from this group regarding successes they achieved and challenges they faced in creating their QAIPs provides other internal audit practitioners with reliable, relevant, and useful information to consider as they begin constructing their own QAIPs.
GEOGRAPHIC DIVERSITY

One of the survey goals was to seek out a broad cross-section of internal audit practitioners around the globe. Hearing from many different voices enhances the robustness of the research results.

Figure 1.2. Location of Practice

As depicted in figure 1.2, regional diversity was well represented within survey respondents as combined responses from North America and Western Europe accounted for less than half the total. As noted in this chart, no single geographic area dominated survey results, making them useful for interpretation and application across all regions.

The regions are as follows:

<table>
<thead>
<tr>
<th>Region</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>Angola, Burkina Faso, Lesotho, Namibia, South Africa, Swaziland, Zambia, Zimbabwe</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>China, Faroe Islands, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, Samoa</td>
</tr>
<tr>
<td>Europe Central Asia</td>
<td>Cyprus, Latvia, Norway, Sweden</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>Brazil, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Puerto Rico</td>
</tr>
<tr>
<td>Middle East</td>
<td>Morocco, Tunisia, United Arab Emirates</td>
</tr>
<tr>
<td>North America</td>
<td>Canada, United States</td>
</tr>
<tr>
<td>Western Europe</td>
<td>Austria, Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Switzerland, United Kingdom</td>
</tr>
</tbody>
</table>
INDUSTRIES AND ORGANIZATIONAL STRUCTURE

We wanted to hear from practitioners working in various industry groups and organizational structures.

Question 3: Please select the broad industry of the organization for which you work. (Total valid responses: 1,008)

Banking, financial institutions, and insurance made up the largest single component of respondents, as illustrated in figure 1.3. Apart from the category “Services,” which includes a variety of organizations, other key industry components had lesser but adequate representation within the survey results.

Question 2: Please select the type of organization for which you currently work. (Total valid responses: 1,008)
The range of responses received from the private sector (both privately held and publicly traded), public sector/government, and not-for-profit organizations noted in figure 1.4 establishes the applicability of survey results across various organizational legal structures.

**MATURITY OF INTERNAL AUDIT ACTIVITIES**

Organizational change is constant in today’s environment. The objective was to receive responses from internal audit practitioners who work in internal audit activities that span a wide range of organizational maturity.

![Figure 1.5. Age of Internal Audit Activity](image)

**Figure 1.5. Age of Internal Audit Activity**

- 20% of respondents have an internal audit activity that has been in place for 0-5 years.
- 23% have an activity that has been in place for 6-10 years.
- 32% have an activity that has been in place for 11-25 years.
- 24% have an activity that has been in place for more than 25 years.
- 1% have an activity that has been in place for less than 0 years.

Question 9: How long has your organization’s internal audit activity been in place? (Total valid responses: 1,008)

Figure 1.5 demonstrates the dynamic nature of the practice of internal auditing, as nearly half the respondents work in internal audit activities that have been in place for less than 10 years. Establishing an effective QAIP is a key step in developing a new internal audit activity. Practitioners who work in relatively new internal audit activities should find survey results that are applicable to their efforts in developing their QAIPs.
ORGANIZATIONAL SIZE

Although the size of an internal audit activity may influence the design of a QAIP, the IPPF requires all CAEs to establish and maintain a QAIP regardless of the size of their internal audit activities.

Figure 1.6 demonstrates another interesting characteristic of the survey responses: nearly half came from internal audit activities with five or fewer employees. In April 2011, The IIA published the Practice Guide, Assisting Small Audit Activities in Implementing the International Standards for the Professional Practice of Internal Auditing (Standards). The guide acknowledges the challenges that CAEs and audit leadership in small internal audit activities confront in implementing the Standards and offers suggestions for addressing those challenges. Practitioners who work in smaller internal audit activities should find these survey results applicable to their efforts in developing their QAIPs.
“Large” organizations did not dominate the survey results, as just over half the respondents work in organizations with 2,500 people or less.

**GOVERNANCE AND THE LEGAL/REGULATORY ENVIRONMENT**

Concluding our review of survey demographics are results from three questions that focus on governance as well as the legal and regulatory environment affecting survey participants.

<table>
<thead>
<tr>
<th>Survey Question</th>
<th>Yes</th>
<th>No</th>
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<tr>
<td>5. “Is there an audit committee or equivalent in your organization?”</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>6. “Is there any legal or regulatory requirement for an internal audit activity in your organization?”</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>7. “Is there any legal or regulatory requirement for external reporting on internal control?”</td>
<td>67%</td>
<td>33%</td>
</tr>
</tbody>
</table>

As indicated in table 1.3, a substantial segment of survey respondents indicated the presence of an oversight body within their organizations. In addition, there are legal or regulatory requirements for establishing an internal audit activity and reporting externally on internal controls for a significant portion of survey respondents. Successful QAIPs enable an internal audit activity to add value in supporting its organization’s governance processes and efforts in meeting legal and regulatory requirements. Internal audit practitioners should find reliable, relevant, and useful information within survey results to consider when they assess their own efforts to add value within the organizations they support.
Chapter 2

REASONS FOR INVESTING IN QAIPS

Survey respondents cited the following primary reasons for investing in QAIPs:

- To identify areas for improvement
- To be in conformance with the mandatory guidance of the IPPF
- To increase the credibility of the internal audit activity within the organization
- To anticipate, meet, or exceed stakeholder expectations
- To bring a systematic, disciplined approach to the internal audit activity

These results are supported by an audit committee chair, who offered the following as desirable outcomes for internal audit quality:

- Standardized internal audit processes across the group
- Professionalism of the team in conformance with high standards
- Close coordination and control (monitoring) by the corporate internal audit activity
- Common risk-based approach in all of the legal entities of the group

ALIGNMENT OF VALUE ADDED WITH REASONS TO INVEST IN QAIPS

A key overall finding from the research is that internal audit activities with a QAIP in place (or planning to implement one within 12 months) confirmed that an effective QAIP adds value to their internal audit activity consistent with their primary reasons to invest in one. These results demonstrate a clear alignment of value added from an effective QAIP with the most important reasons why an internal audit activity should invest in one.

If an effective QAIP adds value to an internal audit activity consistent with the primary reasons to invest in one, a key follow-up question is how can an internal audit activity extend the benefit of that QAIP investment by adding value to the organization it supports? Chapter 6 examines this issue.

FOCUS ON CONTINUOUS IMPROVEMENT

Survey respondents indicate that the main driver for establishing a QAIP is to identify areas in need of improvement. This focus on continuous improvement was reinforced during the follow-up interviews as well.
The main reason for investing in a QAIP is to identify areas in need of improvement. This finding suggests that benchmarking (whether internal or external) should be a specific component of a QAIP. This focus on benchmarking is endorsed by comments we received during the follow-up interviews regarding the value of benchmarking:

- The main driver (for QAIP) is to assess maturity in the marketplace against peer audit groups.
- Things will not change if they don’t come from the outside (benchmarking) or are mandatory.
- To increase credibility (benchmarking should be a key element of any QAIP).
- (Benchmarking will help to) avoid self-satisfaction, which will mean a decrease in quality.
- (Benchmarking will help to) leverage the communication of the results of our self-assessment to the board.
- Benchmark, even if I benefit from my involvement in The IIA.
- I don’t have an audit background, so the external assessment was the best way to benchmark my activity.
This last comment is interesting because as organizations adopt a rotational model to fill CAE positions, more CAEs will come from the business with little or no internal audit experience. Benchmarking via an external assessment could provide a foundation for the development of a new CAE.

IIA Practice Advisory 1312-1: External Assessments recommends that “to achieve optimum benefits from an external assessment, the scope of work should include benchmarking, identification, and reporting of leading practices that could assist the internal audit activity in becoming more efficient and/or effective.” Benchmarking was the top choice in response to survey question 22 (see figure 5.3), “What are the three most important reasons for conducting an external quality assessment?” External assessments are discussed further in chapter 5.

As noted in the summary of results for survey question 15 in figure 2.1, achieving full conformance with The IIA’s Standards comes in at second position. Conformance with the mandatory guidance of the IPPF can be linked to two other key reasons why an internal audit activity should invest in a QAIP: to bring a systematic, disciplined internal audit approach and to increase the weight/credibility of the internal audit activity within the organization (see figure 2.1). The IPPF outlines a systematic, disciplined internal audit approach. Attaining and maintaining that approach empowers the internal audit activity to perform in a consistent, professional manner that enables it to achieve credibility within the organization it supports.

The fifth most selected reason (highlighted in figure 2.1), to anticipate, meet, or exceed stakeholders’ expectations, is supported by comments we received during follow-up interviews, such as:

- (A QAIP will facilitate) increasing the weight/credibility of the internal audit activity for external organizations (e.g., regulators, prospective clients).
- (A QAIP will facilitate) getting an external confirmation that can be presented to the audit committee.
- (A QAIP will facilitate) securing the needs of the external auditor.
- (A QAIP will facilitate) complying with regulatory requirements (e.g., Generally Accepted Government Auditing Standards [GAGAS]).

The survey respondents do not perceive a QAIP as contributing to the achievement of organization-level objectives. The three responses chosen less frequently by survey respondents were to be in greater support of the strategy, to increase the reputation of the organization, and to contribute to the effectiveness of the financial reporting process (see figure 2.1).
<table>
<thead>
<tr>
<th>QAIP Drivers</th>
<th>Global Response</th>
<th>Regions in Excess of the Global Response</th>
<th>Regions Less Than the Global Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>To identify areas in need of improvement</td>
<td>68%</td>
<td>North America (79%)</td>
<td>Latin America (51%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Western Europe (78%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Europe Central Asia (75%)</td>
<td></td>
</tr>
<tr>
<td>To be in full conformance with IIA Standards</td>
<td>57%</td>
<td>Africa (79%)</td>
<td>Asia Pacific (40%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>North America (66%)</td>
<td></td>
</tr>
<tr>
<td>To bring a systematic, disciplined internal audit approach</td>
<td>46%</td>
<td>Western Europe (52%)</td>
<td>Africa (36%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Asia (52%)</td>
<td>Middle East (34%)</td>
</tr>
<tr>
<td>To increase the weight/credibility of the internal audit activity within the organization</td>
<td>46%</td>
<td>Asia Pacific (56%)</td>
<td>North America (40%)</td>
</tr>
<tr>
<td>To anticipate, meet, or exceed stakeholders’ expectations</td>
<td>42%</td>
<td>Asia Pacific (50%)</td>
<td>Middle East (34%)</td>
</tr>
<tr>
<td>To be in greater support of the strategy</td>
<td>11%</td>
<td>Middle East (21%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Europe Central Asia (17%)</td>
<td></td>
</tr>
<tr>
<td>To increase the reputation of the organization</td>
<td>9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To contribute to the effectiveness of the financial reporting process</td>
<td>7%</td>
<td>Asia (11%)</td>
<td>Latin America (12%)</td>
</tr>
</tbody>
</table>

Question 15: What are the three most important reasons why an internal audit activity should invest in a QAIP?

We hesitate to draw concrete conclusions from regional variations in response to survey question 15 (as outlined in table 2.1), but some trends are worth noting. The Asia Pacific region appears to be focused on the customer-oriented benefits to be derived from a QAIP: increase the weight/credibility of internal audit within the organization and anticipate, meet, or exceed stakeholders’ expectations. North America reports higher values for identifying areas for improvement and achieving full conformance with the Standards. Western Europe seems to be more process-oriented: identifying areas for improvement and achieving a systematic, disciplined internal audit approach. Caution is advised in forming specific conclusions from these trends.
ADDED VALUE FROM AN EFFECTIVE QAIP

The 61% of survey respondents who stated they currently had a QAIP in place or planned to implement one within 12 months (see figure 1.1) were also asked whether having an effective QAIP adds value to their audit activity.

<table>
<thead>
<tr>
<th>Survey Question</th>
<th>Disagree (1–3)</th>
<th>Neutral (4)</th>
<th>Agree (5–7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>19a. Better use of resources</td>
<td>22%</td>
<td>21%</td>
<td>57%</td>
</tr>
<tr>
<td>19b. Attention paid to customers’/stakeholders’ perception and satisfaction</td>
<td>18%</td>
<td>17%</td>
<td>65%</td>
</tr>
<tr>
<td>19c. Enhanced internal auditors’ professionalism and specialized skills</td>
<td>11%</td>
<td>14%</td>
<td>75%</td>
</tr>
<tr>
<td>19d. A sense of accomplishment and satisfaction for internal auditors</td>
<td>16%</td>
<td>20%</td>
<td>64%</td>
</tr>
<tr>
<td>19e. Systematic documentation and evaluation of the performance of critical processes</td>
<td>12%</td>
<td>15%</td>
<td>73%</td>
</tr>
<tr>
<td>19f. Identification of critical areas and points for improvement</td>
<td>9%</td>
<td>10%</td>
<td>81%</td>
</tr>
<tr>
<td>19g. Improving the organization’s reputation</td>
<td>22%</td>
<td>22%</td>
<td>56%</td>
</tr>
</tbody>
</table>

Survey participants were asked to use a scale from 1 (strongly disagree) to 7 (strongly agree) to indicate how an effective QAIP has added value to their internal audit activity in the following areas:

- Better use of resources (19a)
- Attention paid to customers’/stakeholders’ perception and satisfaction (19b)
- Enhanced internal auditors’ professionalism and specialized skills (19c)
- A sense of accomplishment and satisfaction for internal auditors (19d)
- Systematic documentation and evaluation of the performance of critical processes (19e)
- Identification of critical areas and points for improvement (19f)
- Improving the organization’s reputation (19g)

As table 2.2 illustrates, the results of survey question 19 indicate that the top three contributors of value added to the internal audit activity resulting from an effective QAIP are identification of critical areas for improvement, enhanced internal auditors’ professionalism and specialized skills, and systematic documentation and evaluation of the performance of critical processes. These top value contributors directly align with the top responses from survey question 15 (see figure 2.1) regarding the most
important reasons why an internal audit activity should invest in a QAIP. As noted in table 2.1, these are to identify areas in need of improvement, to be in full conformance with IIA Standards, and to bring a systematic, disciplined internal audit approach.

Paying attention to customers/stakeholders’ perception and satisfaction and achieving a sense of accomplishment and satisfaction for internal auditors were in the second tier of value added resulting from a QAIP, as noted in the results of survey question 19 (see table 2.2). These second-tier value contributors directly align with the second tier of responses from survey question 15 (see figure 2.1) regarding the reasons why an internal audit activity should invest in a QAIP. As noted in table 2.1, these are to increase the weight/credibility of the internal audit activity within the organization and to anticipate, meet, or exceed stakeholders’ expectations.

These survey results demonstrate a clear alignment of value added from an effective QAIP with the most important reasons why an internal audit activity should invest in one. Based on this outcome, we conclude that internal audit activities that establish successful QAIPs are achieving benefits that justify their level of effort in building their QAIPs.

IMPLICATIONS FOR PRACTITIONERS

Internal audit activities that have not yet established a QAIP should consider the value added from an effective QAIP, as outlined in the survey results. These benefits form the basis for a decision to initiate investment in a QAIP and provide offsets to perceived costs associated with establishing one.

QAIPs should be clearly designed to identify areas for improvement. Based on a strategic analysis of the internal audit activity and an understanding of professional requirements, the CAE should develop a vision of key improvement areas. In establishing convincing and relevant areas for improvement, CAEs should seek input from a qualified team of external assessors.

CAEs should promote their QAIP as a source of value added in support of organizational objectives—strategic and operational. A high-performing internal audit activity contributes to achieving organizational objectives through its systematic, disciplined internal audit processes and the competencies of its staff. Its processes and personnel enable the internal audit activity to build credibility within the organization, which results in an enhanced ability to meet or exceed stakeholder expectations. QAIPs empower the internal audit activity to add value by contributing to the achievement of strategic objectives (see the new Practice Advisory 2120-3: Internal Audit Coverage of Risks to Achieving Strategic Objectives).

CAEs are encouraged to promote their QAIP and communicate with senior management and the audit committee regarding the achievement of strategic objectives and the value added. This interaction between the internal audit activity and its key stakeholders is supported by IIA Practice Guide, Measuring Internal Audit Effectiveness and Efficiency, which notes:

“Organizations that effectively use internal auditing are better able to identify business risks and process and system inefficiencies, take appropriate corrective action, and ultimately support continuous improvement.”
Chapter 3

CHALLENGES OF IMPLEMENTING QAIPS

The main reasons for nonconformance to Standard 1300 noted in CBOK 2010 were:

- Small size of the organization or internal audit activity
- Cost of using the Standards
- Amount of time required for compliance
- Lack of management/board support

In the current survey, these issues continue to be mentioned, as resource constraints (staffing and available time) appear to be significant barriers that must be overcome in establishing QAIPs. These factors are supported by comments regarding the formalism of the QAIP processes described as increased bureaucratization with related expansion in paper workload.

The research also found that a CAE’s strongest support for establishing an effective QAIP comes from the audit committee and executive management. Any lack of support from these groups represents a challenging hurdle to overcome in building and sustaining a successful QAIP.
RESOURCES-RELATED BARRIERS

Practitioners continue to confront resource constraints in trying to establish QAIPs.

Question 16: What are the three most important obstacles that hamper the implementation of the QAIP in your internal audit activity or prevent it from investing in a QAIP? (Total valid responses: 958)

Note: Respondents could choose up to three reasons. The percentages displayed in figure 3.1 indicate the portion of the 958 valid responses selecting a particular reason.

Resource constraints dominate the obstacles identified by respondents, led by financial cost and lack of staff to supervise engagements effectively (see figure 3.1). Time and staffing constraints are also included in other comments gathered during the survey. Some respondents mentioned competing priorities for staff responsible for coordinating QAIP activities that make improving the QAIP program more challenging. Some small audit shops must choose between investing in their QAIP, providing staff training, or implementing a new audit tool.

Financial costs include external assessments, which are addressed later in this chapter. Staffing constraints are a recurring theme mentioned by internal audit activities of various sizes.
Question 16: What are the three most important obstacles that hamper the implementation of the QAIP in your internal audit activity or prevent it from investing in a QAIP? (Total valid responses: 958)

Cost and staff constraints appear higher in developing regions (Africa, Asia, and Latin America) where resources available to internal audit may be tight. In Western Europe, there seems to be a disconnect between their primary reasons for investing in a QAIP (as noted in table 2.1 from chapter 2) and their key barriers for implementing QAIPs (as depicted in table 3.1). Respondents from Western Europe may see too much formalization associated with a QAIP without any corresponding value achieved from enhancements to the internal audit process itself. Again, caution is advised in forming concrete conclusions from these trends.

Comments from interviews regarding barriers or obstacles to implementing a QAIP included:

- We already know where we are not in conformance with the Standards (QAIP adds nothing to this knowledge).
- Management has a great appreciation in the quality of work we currently deliver (a QAIP is not required).
- Requirements for quality lack “teeth.”
- Effective management practices already cover it (a QAIP).
- No need to increase our efforts, as our good quality is already perceived by management (a QAIP is not required).
- Not clear enough about cost/benefit approach (to be achieved from a QAIP).
STAFF TIME DEDICATED TO QAIP ACTIVITIES

The 61% of survey respondents who stated they currently had a QAIP in place or planned to implement one within 12 months (see figure 1.1) were further asked about the amount of staff time they dedicated to QAIP activities.

<table>
<thead>
<tr>
<th>Percentage of Staff Time Dedicated to QAIP</th>
<th>Frequency of Responses from Survey Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5%</td>
<td>50% of respondents</td>
</tr>
<tr>
<td>Between 5% and 10%</td>
<td>33% of respondents</td>
</tr>
<tr>
<td>Greater than 10%</td>
<td>17% of respondents</td>
</tr>
</tbody>
</table>

Question 26: What percentage of your audit plan (staff time) is dedicated to QAIP activities? (Total valid responses: 610)

Responses documented in table 3.2 appear consistent with the notion that internal audit activities view QAIPs as being resource intensive. Half the survey participants state that their available staff time dedicated to QAIP activities exceeds 5%. A significant portion of respondents indicates that more than 10% of available staff time is allocated to QAIP work. These results also seem to support responses from survey question 16 (see figure 3.1): that increased bureaucratization and paper workload are significant obstacles hampering the implementation of a QAIP.

For organizations where there is increased bureaucratization and paper workload, applying well-designed tools that are managed by responsible people with the appropriate authority and training could be a way to overcome these challenges and reduce time spent building an effective QAIP. The IIA’s Quality Assessment Manual for the Internal Audit Activity (published in 2013) contains various examples of well-designed tools to support building a successful QAIP that can be integrated with the day-to-day operations of an internal audit activity.

Bureaucratization can be addressed by directing internal audit practitioners to IIA Practice Guide, Quality Assurance and Improvement Program. As noted in this guide, “Quality in internal audit begins with the structure and organization of the audit activity. Quality should be built in to, and not on to, the way the activity conducts its business.” This tactic emphasizes integrating quality practices into the internal audit activity’s methodology. The approach does not advocate overlaying some formalized “quality process” on to the internal audit activity.

STAKEHOLDER SUPPORT FOR A QAIP

The 61% of survey respondents who stated they currently had a QAIP in place or planned to implement one within 12 months (see figure 1.1) were further asked about the relationship of their QAIP with organizational quality programs.
Table 3.3. QAIP Relationship with Quality Programs

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>27%</td>
</tr>
<tr>
<td>No</td>
<td>73%</td>
</tr>
</tbody>
</table>

Question 18: Is the QAIP of your internal audit activity linked to a comprehensive quality program at the organization level? (Total valid responses: 615)

A possible reason for the low level of connection to comprehensive organizational quality programs highlighted in table 3.3 is that many organizations may not have them in place. In instances where such programs do exist, CAEs should make every effort to link their QAIP to the organizationwide program. This will enhance relationships with key stakeholders and possibly gain support for the internal audit activity’s QAIP, thus addressing some of the obstacles noted in responses to survey question 16 (see figure 3.1).

IIA Practice Guide, Quality Assurance and Improvement Program, notes that “recognizing who the customers and stakeholders are is a key step in the quality process.”

Figure 3.2. Stakeholder Ranking

Question 11: How would you rank the three main stakeholders of your internal audit activity?

Note: Respondents ranked their top three stakeholders. The percentages in figure 3.2 indicate the portion of the 1,012 valid responses selecting a particular stakeholder.

Executive management, the audit committee, and the board are clearly identified as the three main stakeholders of the internal audit activity. The 61% of survey respondents who stated they currently had a QAIP in place or planned to implement one within 12 months (see figure 1.1) were further asked about their support from these key stakeholders.
Table 3.4. CAE Support

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Not Involved (1–3)</th>
<th>Neutral (4)</th>
<th>Supportive (5–7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of directors</td>
<td>46%</td>
<td>14%</td>
<td>40%</td>
</tr>
<tr>
<td>Audit committee</td>
<td>23%</td>
<td>12%</td>
<td>65%</td>
</tr>
<tr>
<td>Executive management</td>
<td>30%</td>
<td>15%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Question 17: How is the CAE supported by the following groups to implement QAIPs? (Total valid responses: ranged from 584 to 609)

The questionnaire asked respondents to indicate support using a scale from 1 (not involved) to 7 (strongly supportive). The audit committee is the most involved of the three stakeholders, although executive management is fairly supportive of CAEs as they develop their QAIPs. These findings are influenced by the fact that effective QAIPs include regular reporting of results to the audit committee and executive management.

The lower support numbers from executive management represent an opportunity for CAEs to enhance their communication with this group. Support for QAIPs may be associated with the perception of the value added by the internal audit activity to the organization. For this reason, CAEs should strive for levels of endorsement for QAIPs from both the audit committee and executive management that exceed those reported in the survey.

Lower support levels from the board of directors may reflect the fact that assignments for individual directors are spread across the various subcommittees of the board. The audit committee is just one of these subcommittees.

THE COST OF AN EXTERNAL ASSESSMENT

As noted earlier in this chapter, the “financial cost” obstacle highlighted in survey question 16 (see figure 3.1) includes expenses associated with engaging an external assessor to complete the required external assessment of an internal audit activity every five years.

Interview comments regarding the external assessment process included:

- Paying others to tell us what we already know.
- Too formalistic, not focused on content.
- Potentially too much focus on Standards compliance, rather than disseminating best practice.
- Seems like a “check-the-box” activity. Difficult to see the value other than compliance with the Standards.
- Lack of practical insights from the review team.
- Lack of skills or knowledge regarding the subject, and it is viewed as just administration.
- Lack of field-specific expertise to understand our operation for a QAIP.
Lack of industry knowledge as value added by the external assessor.

Add the cost of delivering less work as a result of interruptions.

We implemented a QAIP last year; to that point, justifying the cost/benefit was a hard sell.

Already done annually as per applicable regulation by the external auditor.

Too formal and a compliance approach; a tick-the-box exercise that is not enough best practices oriented.

External audit opinions are sufficient regarding the internal audit process.

External assessments are reviewed in chapter 5. However, in response to the interview comments above, it is worth noting that IIA Standard 1312: Internal Assessments describes very specific guidelines regarding the qualifications of the external assessment team:

“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.”

As outlined in Standard 1312, the choice of the external assessment team will have a direct bearing on achieving an acceptable return on investment for the external assessment portion of an internal audit activity’s QAIP.

**IMPLICATIONS FOR PRACTITIONERS**

Addressing resource constraints in establishing their QAIP will require CAEs to consider the approach outlined in IIA Practice Guide, Quality Assurance and Improvement Program, which states, “Quality should be built in to, and not on to, the way the activity conducts its business—through its internal audit methodology, policies and procedures, and human resource practices.”

CAEs should make use of survey results presented in chapter 2 (see figure 2.1 and table 2.2) that demonstrate a direct linkage between reasons to invest in a QAIP and the benefits received from that investment. The benefits described in chapter 2 provide a basis for CAEs to justify the allocation of resources to building and sustaining a successful QAIP.

To further address the issue of time and staff constraints, CAEs should consult The IIA’s *Quality Assessment Manual for the Internal Audit Activity* for tools that enable the integration of ongoing assessments into the daily operation of internal audit activities. Integrating quality into day-to-day audit activities reduces the need for “extra” staff time devoted to QAIP and supports development of a systematic, disciplined internal audit process. Following the recommendations contained in IIA Practice
Guide, Quality Assurance and Improvement Program, and adopting tools from the *Quality Assessment Manual for the Internal Audit Activity* to develop an internal audit activity’s QAIP will help to simplify the approach, while minimizing bureaucratization and the related increase in paper workload.

Building support for a QAIP requires open communication between CAEs and stakeholders to obtain agreement on internal audit services that add value in meeting organizational objectives. See IIA Practice Guide, Measuring Internal Audit Effectiveness and Efficiency, for suggestions regarding enhancing the dialogue with key stakeholders.

The linkage between ongoing and periodic internal assessments and external assessments should be strengthened to leverage results of internal QAIP efforts. Achieving this enhanced linkage should enable CAEs to reduce the overall cost of preparing for and performing an external assessment.
GLOBAL CHARACTERISTICS OF SUCCESSFUL QAIPS: INTERNAL ASSESSMENTS

As described in the IPPF, the internal assessment portion of a QAIP is comprised of two elements: ongoing monitoring and periodic self-assessment. The research found that practitioners have integrated their ongoing monitoring activities within their internal audit activity’s normal operations. This approach is consistent with IIA Practice Guide, Quality Assurance and Improvement Program, which states that “Ongoing monitoring provides assurance that the processes in place are working effectively to ensure quality is achieved on an audit by audit basis.”

Survey results for periodic internal assessments are similar to those for ongoing monitoring—practitioners generally implement a standards-based assessment. Benefits derived from periodic internal assessments that were highlighted during our interviews included achieving consistency in audit execution, obtaining reliable audit evidence, and enhancing audit staff skills.

Effective QAIPs link ongoing monitoring activities with periodic internal assessments to avoid duplication of effort and minimize resource requirements. Practitioners agree that successful QAIPs require leadership and support from CAEs as well as active participation and involvement by internal audit staff.

Survey respondents made many comments regarding internal assessments that noted the importance of staff training and certification, use of technology tools, and access to quality resources (IIA-related) as critical success factors in implementing an effective QAIP. Having a dedicated quality manager tasked with coordinating the QAIP was also identified as a key resource for the internal audit activity.
ONGOING MONITORING

The 61% of survey respondents who stated they currently had a QAIP in place or planned to implement one within 12 months (see figure 1.1) were also asked about the ongoing monitoring activities they implemented as part of their internal assessment.

<table>
<thead>
<tr>
<th>Figure 4.1. Components Implemented in an Ongoing Internal Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>All final reports and recommendations are reviewed and approved by the chief audit executive (CAE)</td>
</tr>
<tr>
<td>Supervision of engagements</td>
</tr>
<tr>
<td>Audit policies and procedures used for each engagement to ensure conformance with applicable planning, fieldwork, and reporting standards</td>
</tr>
<tr>
<td>Regular, documented review of working papers during engagements by appropriate internal audit staff</td>
</tr>
<tr>
<td>Feedback from customer survey on individual engagements</td>
</tr>
<tr>
<td>Analyses of performance metrics established to improve the internal audit activity’s effectiveness and efficiency</td>
</tr>
</tbody>
</table>

Question 12: As part of the QAIP, which component(s) of an ongoing internal assessment is (are) implemented in your internal audit activity? (Total valid responses: 616)

Note: Survey participants were asked to select one of three possible responses for each component:

– Yes
– To be implemented within 12 months
– No

The percentages presented in figure 4.1 indicate the portion of the 616 valid responses denoting “Yes” for a particular component.

Results displayed in figure 4.1 demonstrate that practitioners have integrated their ongoing monitoring activities within their internal audit activity’s normal operations. Specifically, CAE approval of final reports, supervisory review of engagements, use of relevant audit policies and procedures, and regular review of engagement working papers comprise many day-to-day actions taken by internal audit staff and management. This approach is consistent with IIA Practice Guide, Quality Assurance and Improvement Program, which supports implementation of the IPPF’s mandatory guidance and states that “Ongoing monitoring provides assurance that the processes in place are working effectively to ensure quality is achieved on an audit by audit basis.” Feedback from customer surveys and analysis
of performance metrics provide input for the internal audit activity to consider in identifying areas for improvement.

PERIODIC INTERNAL ASSESSMENT

The 61% of survey respondents who stated they currently had a QAIP in place or planned to implement one within 12 months (see figure 1.1) were also asked about the periodic internal assessment activities they implemented.

| Question 13: As part of the QAIP, which component(s) of a periodic internal assessment is (are) implemented in your internal audit activity? (Total valid responses: 616) |
|---|---|
| Note: Survey participants were asked to select one of three possible responses for each component: |
| – Yes |
| – To be implemented within 12 months |
| – No |
| The percentages presented in figure 4.2 indicate the portion of the 616 valid responses denoting “Yes” for a particular component. |

Survey results for periodic internal assessments are similar to those reported for ongoing monitoring; that is, practitioners generally implement a Standards-based assessment. The annual risk assessment (Standard 2010: Planning) and periodic reporting to governing bodies (Standard 2060: Reporting to Senior Management and the Board) are the two most common elements of the periodic internal assessment. These two activities are embedded within normal operating processes of an internal audit activity. Activities specifically designed for periodically assessing quality occur less frequently. Practices such as an annual review of findings, review of performance metrics, and benchmarking of leading practices help identify opportunities for continuous improvement. Biannual customer surveys are the least used element of periodic assessments because they are viewed as time-consuming both for
internal audit and for audit clients. Essentially, most practitioners perceive the cost of performing biannual customer surveys exceeds the value of any apparent benefit derived from them.

Respondents provided additional comments regarding the advantages of establishing an annual frequency for certain periodic internal assessment activities, such as:

- Participation in The IIA’s Global Audit Information Network (GAIN) benchmarking
- Documented discussions within the internal audit activity on selected topics
- Adoption of the Internal Audit Capability Model (IA-CM) for the Public Sector
- Use of surveys focused on specific stakeholders (for example, top managers)
- Review of working papers to ensure achievement of the engagement’s objectives
- Follow-up of key findings and review of the audit plan during the year

Benefits gained from periodic internal assessments highlighted during our interviews include achieving consistency in audit execution, obtaining reliable audit evidence, and enhancing audit staff skills.

**KEY FACTORS FOR SUCCESSFUL QAIPS**

The 61% of survey respondents who stated they currently had a QAIP in place or planned to implement one within 12 months (see figure 1.1) were also asked about the key factors for a successful QAIP.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Disagree (1–3)</th>
<th>Neutral (4)</th>
<th>Agree (5–7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>28a. Governing bodies’ involvement</td>
<td>24%</td>
<td>18%</td>
<td>58%</td>
</tr>
<tr>
<td>28b. Support from executive management</td>
<td>13%</td>
<td>14%</td>
<td>73%</td>
</tr>
<tr>
<td>28c. Internal auditors’ involvement and motivation</td>
<td>3%</td>
<td>5%</td>
<td>92%</td>
</tr>
<tr>
<td>28d. CAE leadership</td>
<td>2%</td>
<td>4%</td>
<td>96%</td>
</tr>
</tbody>
</table>

Question 28: What are the key factors for a successful implementation of a QAIP? (Total valid responses: 616)

The question asked respondents to identify key factors using a scale from 1 (strongly disagree) to 7 (strongly agree).

- Involvement by governing bodies: the board, audit committee, etc. (28a)
- Support from executive management (28b)
- Internal auditors’ involvement and motivation (28c)
- CAE leadership (28d)
As highlighted in table 4.1, two key factors for a successful QAIP reside within the internal audit activity: CAE leadership and internal auditors’ involvement and motivation. A successful QAIP relies on a leader who can drive changes needed for its implementation and inspire his or her staff to achieve new levels of performance resulting from a focus on internal audit quality. This confirms previous 2006 and 2010 CBOK results regarding this behavioral skill: leadership ranked as the top behavioral skill for CAEs.

The second factor concerns internal auditors’ involvement and motivation. To sustain these behaviors, audit staff may need to strive for more than just conformance to the mandatory guidance of the IPPF. Enhancing and improving internal audit processes is one possible area of focus for staff. Earning the trust of key stakeholders and being regarded as a reliable business advisor is another goal for staff to pursue. Driving process improvement and building working relationships with stakeholders are important elements of any successful QAIP.

Other comments from the survey regarding key factors for successful QAIPs include:

- Skills of the internal auditors
- Time and budget resource
- Alignment with the business
- Integration with internal audit normal operations
- Documentation of an audit framework ensuring consistency in quality
- A quality manager tasked with coordinating QAIP activities
- Quality of the external assessment team

**IMPLICATIONS FOR PRACTITIONERS**

To embed internal assessments in daily tasks, outputs should be visible and discussed with staff to reinforce their involvement. QAIP initiatives should be linked with staff training programs and established as part of normal job routines. CAEs should develop quality key performance indicators at the engagement level.

For an efficient use of resources, CAEs should seek to coordinate ongoing monitoring activities with periodic internal assessments. The IIA’s *Quality Assessment Manual for the Internal Audit Activity* contains tools that facilitate this coordination of ongoing monitoring with periodic internal assessments.

In seeking synergy between ongoing assessments and periodic initiatives, CAEs should focus on audit activities that extend beyond conformance with the *Standards*. Practices such as annual review of findings and analysis of performance metrics could be used to support the development of continuous improvement initiatives. Benchmarking of performance metrics could serve as a basis for discussion with the internal audit team.
Chapter 5

GLOBAL CHARACTERISTICS OF SUCCESSFUL QAIPS: EXTERNAL ASSESSMENTS

The mandatory guidance of the IPPF (Standard 1312) requires that an external assessment must be conducted once every five years by a qualified external assessor or assessment team from outside the organization.

Standard 1312 further states that the external assessment may be in the form of a:

- Full external assessment, or
- Self-assessment with independent external validation

Our research confirmed that for practitioners who have implemented a QAIP, an external assessment is an essential element of their quality program. We found that among the survey participants, external assessments are almost evenly split between full external assessments and self-assessments with independent external validation. As internal audit activities repeat their external assessments, there is pressure to demonstrate the value gained from them.

The three most important reasons to invest in an external assessment are:

- Benchmarking internal audit practices
- Assuring conformance with IIA Standards
- Increasing the perceived value of the internal audit activity within the organization

These top reasons for investing in an external assessment along with the second tier of motives—setting an example and meeting stakeholders’ expectations—are consistent with the overall drivers for investing in QAIPs.

Even though budget constraints were identified as barriers to conducting external assessments, the research disclosed that most of the recent external assessments and a majority of self-assessments with independent external validation cost less than $15,000.

FREQUENCY OF EXTERNAL ASSESSMENTS

The 61% of survey respondents who stated they currently had a QAIP in place or planned to implement one within 12 months (see figure 1.1) were also asked how many times their internal audit activity had received an external assessment.
Table 5.1. Frequency of External Assessments

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Once</td>
<td>31%</td>
</tr>
<tr>
<td>Two or three times</td>
<td>25%</td>
</tr>
<tr>
<td>More than three times</td>
<td>12%</td>
</tr>
<tr>
<td>Never</td>
<td>32%</td>
</tr>
</tbody>
</table>

Question 20: How many times has your internal audit activity been externally assessed? (Total valid responses: 613)

From findings depicted in figure 1.1, we know that 464 respondents stated they have a QAIP in place, and results contained in table 5.1 indicate that 417 respondents report having been externally assessed at least once. By combining outcomes from these two survey questions, we can conclude that 90% (417/464) of survey respondents who state they have a QAIP in place have been externally assessed. The remaining 10% may have had their external assessment scheduled or in process, but not yet completed at the time of the survey. Another possibility is that their internal audit activity is less than five years old.

Of the survey respondents, 20% indicated their internal audit activity has existed for less than five years (see figure 1.5). Therefore, we believe it is reasonable to assume that a portion of participants responding to survey question 20 who reported they have never been externally assessed (see table 5.1) may not have been in existence for five years and their external assessment is not yet required. Our overall conclusion from the results of survey question 20 is that for practitioners who have implemented a QAIP, an external assessment is an essential element of their quality program.

**TYPES OF EXTERNAL ASSESSMENTS**

An external quality assessment can be configured as:

- An assessment performed by a person or a team independent from the organization,
- A peer review involving three or more organizations, or
- A self-assessment with independent external validation conducted by a person or team external to the organization.

When analyzing survey results, peer reviews were considered to be a subset of a self-assessment with independent external validation. For survey respondents who reported the type of their most recent external assessment, 54% engaged a full external assessment while the remaining 46% performed a self-assessment with independent external validation. However, self-assessments with independent external validation pay limited attention to benchmarking and identifying leading practices, which are effective methods for identifying areas of improvement, as discussed in chapter 2.

The analysis of survey results revealed that the maturity of the internal audit activity might impact the choice between a full external assessment and a self-assessment with independent external validation. Results show that 37% of internal audit activities in existence for less than five years conduct a full external assessment, while 54% of internal audit activities in existence for greater than 25 years conduct a full external assessment.
It was also found that 29% of the organizations within the agricultural or raw material industries have conducted a full external assessment, while 58% of respondents from banking and 60% from manufacturing have conducted a full external assessment.

From a review of survey results, we determined that the size of the organization, the existence of an audit committee, the regulatory context (requirements on internal audit or internal control reporting), or the use of internal audit work by the external auditor did not have an impact on decisions regarding the type of external assessment performed.

Full external assessments are more frequent in Western Europe versus the global average (66% versus 54% globally), whereas respondents from Latin America, Asia Pacific, Central Europe, and Asia designated self-assessments with independent external validation at a higher frequency than the global average (60% versus 46% globally).

**TYPE OF EXTERNAL REVIEWER**

We were interested in knowing who is conducting external assessments for internal audit activities.

As illustrated in figure 5.1, external assessments are mainly performed by Big Four firms. These firms are more involved in full external assessments than in self-assessments with independent external validation. IIA institutes perform external assessments that appear to be evenly split between full external assessments and self-assessments with independent external validation. Peers are more involved with self-assessments with independent external validation.
Question 23b: If an external assessment is planned in the upcoming 12 months, who will conduct it?

As illustrated in figure 5.2, for external assessments planned in the upcoming 12 months, the number of IIA institutes appears to be slightly increasing over recent trends (noted in figure 5.1).

<table>
<thead>
<tr>
<th>Other Groups Performing External Assessments</th>
<th>Frequency for Most Recent Assessments</th>
<th>Frequency for Assessments planned During the Upcoming 12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>External auditor, regulator</td>
<td>15%</td>
<td>32%</td>
</tr>
<tr>
<td>Internal audit group</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>Peers appointed by local IIA</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Small consulting firm</td>
<td>59%</td>
<td>32%</td>
</tr>
<tr>
<td>Specialized assessor</td>
<td>15%</td>
<td>21%</td>
</tr>
</tbody>
</table>

We found that approximately one fifth of external assessments were designated as being performed by “Other Groups.” Table 5.2 displays the types of assessors making up this “Other” category and the portion of this category they comprise. Small consulting firms appear to dominate the results for recent assessments.
COMPLIANCE WITH STANDARD 1312

Standard 1312 requires an external assessment be performed at least once every five years as part of a QAIP. Survey question 21 asked, “Is the QAIP of your internal audit activity in full conformance with IIA Standard 1312 requiring an external assessment at least once every five years?” Only 42% of survey participants responded to this question.

<table>
<thead>
<tr>
<th>Table 5.3. Conformance with Standard 1312</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>Planned for the next 12 months</td>
</tr>
<tr>
<td>No</td>
</tr>
</tbody>
</table>

Question 21: Is the QAIP of your internal audit activity in full conformance with IIA Standard 1312 requiring an external assessment at least once every five years? (Total valid responses: 424)

As reported in table 5.3, 91% of survey respondents indicate their QAIP does (or will) include an external assessment as required by Standard 1312.

Further analysis of survey results disclosed that of the survey participants with existing QAIPs, average conformance to Standard 1312 is 67%. This percentage is 78% for not-for-profit organizations and 72% for publicly traded organizations. Compliance with Standard 1312 is higher in the banking industry and in the agricultural/raw material industry (75%) and lower in manufacturing (55%). The current conformance with Standard 1312 is greater in North America (78%) and in Europe Central Asia (77%) but lower in the Middle East (45%) and Asia Pacific (51%). The existence of an audit committee increases conformance rate (70%, versus 54% if an audit committee does not exist).
INVESTING IN EXTERNAL ASSESSMENTS

We were interested in hearing from practitioners regarding their reasons for conducting an external assessment.

Question 22: What are the three most important reasons for conducting an external quality assessment? (Total valid responses: 577)  
Note: The percentages indicate the portion of the 577 valid responses selecting a particular reason for conducting an external assessment. Respondents could choose up to three reasons.

As figure 5.3 illustrates, the three most important reasons to invest in an external assessment are:

- Benchmarking internal audit practices
- Assuring conformance with IIA Standards
- Increasing the perceived value of the internal audit activity within the organization

These top reasons for investing in an external assessment along with the second tier of motives—setting an example and meeting stakeholders’ expectations—are consistent with the overall drivers for investing in QAIPs we reviewed in chapter 2. Increasing organization reputation was the least mentioned motivation for conducting an external assessment (see figure 5.3). If increasing the organization’s reputation is neither a driver nor an outcome for conducting an external assessment, we understand why external communication regarding results of QAIPs rarely occurs (see chapter 7).
Survey respondents who are external auditors did not link their reliance on internal audit work with a QAIP or even an external assessment. They refer to their own standards and assessments before relying on or using work prepared by internal auditors. The survey shows that internal auditors have a higher rate of conformance with Standard 1312 when they consider that external auditors rely on their work (74%) versus when there is no reliance at all (60%).

Table 5.4. Reasons for Conducting External Quality Assessments – Regional Responses

<table>
<thead>
<tr>
<th>Reason</th>
<th>Global %</th>
<th>Regions in Excess of the Global Response</th>
<th>Regions Less Than the Global Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>To benchmark our internal audit practices</td>
<td>49%</td>
<td>Africa (58%)</td>
<td>Middle East (27%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Western Europe (55%)</td>
<td>Latin America (34%)</td>
</tr>
<tr>
<td>To be in full conformance with IIA Standards</td>
<td>47%</td>
<td>North America (56%)</td>
<td>Western Europe (38%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Africa (63%)</td>
<td>Asia Pacific (26%)</td>
</tr>
<tr>
<td>To increase the perceived value of the internal audit activity within the organization</td>
<td>43%</td>
<td>Latin America (56%)</td>
<td>North America (35%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Middle East (55%)</td>
<td></td>
</tr>
<tr>
<td>To set an example: “The internal audit activity is also audited”</td>
<td>34%</td>
<td>Western Europe (48%)</td>
<td>Latin America (16%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>North America (41%)</td>
<td>Africa (23%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Asia Pacific (23%)</td>
</tr>
<tr>
<td>To meet or exceed stakeholders’ expectations</td>
<td>32%</td>
<td>Asia Pacific (46%)</td>
<td>Europe Central Asia (23%)</td>
</tr>
<tr>
<td>To raise the awareness among management of internal audit professional standards</td>
<td>21%</td>
<td>Europe (38%)</td>
<td></td>
</tr>
<tr>
<td>To increase the reputation of the organization</td>
<td>13%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Question 22: What are the three most important reasons for conducting an external quality assessment?
COSTS OF EXTERNAL ASSESSMENTS

The research included an examination of the costs of performing an external assessment.

<table>
<thead>
<tr>
<th>Table 5.5. External Assessment Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Most Recent External Assessment</strong></td>
</tr>
<tr>
<td>$0–$15,000</td>
</tr>
<tr>
<td>$15,001–$30,000</td>
</tr>
<tr>
<td>$30,001–$50,000</td>
</tr>
<tr>
<td>$50,001–$70,000</td>
</tr>
<tr>
<td>$70,001–$100,000</td>
</tr>
<tr>
<td>More than $100,000</td>
</tr>
</tbody>
</table>

Question 24: Please indicate the amount of the external assessment, whether recent or upcoming, as applicable. Question 25: Please indicate the type of review, whether recent or upcoming, as applicable. (Total valid responses: more than 700 for both questions 24 and 25)

As outlined in table 5.5, even if budget constraints are one of the reasons why external assessments are not implemented, it is interesting to note that most of the recent external assessments (39%) and a majority of self-assessments with independent external validation (63%) cost less than $15,000. The cost of external assessments for the upcoming 12 months appears consistent with recent cost experience.

The figures contained in table 5.5 must be carefully examined, because cost does not always reflect the quality of the review. It often depends on the complexity of the internal audit activity under review. Another consideration in evaluating the cost of an external assessment is that it only occurs once every five years, and therefore may be amortized over five years. Amortization of external assessment costs may help with budget discussions regarding the internal audit activity.

IMPLICATIONS FOR PRACTITIONERS

An external assessment is clearly an essential element of a successful QAIP. CAEs should ensure that the goals and objectives for conducting an external assessment are aligned with overall QAIP objectives and the value to be derived by the internal audit activity. Survey results confirm that the top reasons for investing in an external assessment are consistent with the overall drivers for investing in QAIPs that were reviewed in chapter 2.

The choice of external assessment—full external or self-assessment with independent external validation—should also be consistent with overall goals for the QAIP. As discussed in this chapter, self-assessment with independent external validation appears to be the more popular choice for internal audit activities that have been in existence for less than five years. Regardless of the maturity of the internal audit activity, CAEs who are building their QAIPs should consider a self-assessment with independent
external validation for their initial external assessment, as the research confirms they generally cost less than a full external assessment.

Although resource constraint can be a barrier to successfully building and sustaining an effective QAIP, CAEs need to develop a cost-benefit justification for investing in a QAIP that highlights the value to be gained for both the internal audit activity and the organization it supports. The value for stakeholders is reviewed in the next chapter.
Respondents to the CBOK 2010 survey generally agree that their internal audit activity adds value to their organization. Standard 1300 establishes the role QAIPs play in helping internal audit activities add value and improve organizational operations. As noted in IIA Practice Advisory 1300-1, “The CAE is accountable for implementing processes designed to provide reasonable assurance to the various stakeholders that the internal audit activity is perceived by those stakeholders as adding value and improving the organization’s operations.”

Survey respondents affirmed their internal audit activities add value in four areas: 1) risk management, 2) execution of organizational strategy, 3) operational effectiveness, and 4) coordination with other assurance providers.

The research demonstrates that having an effective QAIP empowers an internal audit activity to contribute to the improvement of risk management within the organization it supports. Another key result from a successful QAIP is attention paid to stakeholders, which leads to understanding the need for timely communication of relevant information and support for implementation of strategy.

The top criteria for measuring efficiency and effectiveness selected by the survey respondents align with fundamental outcomes from successful QAIPs: systematic documentation and evaluation of critical processes, paying attention to customer/stakeholder satisfaction, and internal auditors’ professionalism and specialized skills.
## VALUE-ADDED ACTIVITIES

### Table 6.1. Adding Value

<table>
<thead>
<tr>
<th>Survey Question</th>
<th>Disagree (1–3)</th>
<th>Neutral (4)</th>
<th>Agree (5–7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31a. Identify cost savings within the organization</td>
<td>20%</td>
<td>19%</td>
<td>61%</td>
</tr>
<tr>
<td>31b. Decrease in external audit fees</td>
<td>48%</td>
<td>17%</td>
<td>35%</td>
</tr>
<tr>
<td>31c. Decrease in fraud acts</td>
<td>16%</td>
<td>22%</td>
<td>62%</td>
</tr>
<tr>
<td>31d. Increase in executive management and governing bodies’ knowledge regarding risk management and internal control best practices</td>
<td>7%</td>
<td>11%</td>
<td>82%</td>
</tr>
<tr>
<td>31e. Improvement of timely communication of relevant information for better decision-making</td>
<td>12%</td>
<td>18%</td>
<td>70%</td>
</tr>
<tr>
<td>31f. Support for the implementation of the organization’s strategy</td>
<td>16%</td>
<td>19%</td>
<td>65%</td>
</tr>
<tr>
<td>31g. Independent opinion on the significance of residual risks</td>
<td>8%</td>
<td>13%</td>
<td>79%</td>
</tr>
<tr>
<td>31h. A catalyst for internal audit for an effective coordination of other assurance providers</td>
<td>18%</td>
<td>25%</td>
<td>57%</td>
</tr>
</tbody>
</table>

Question 31: How does internal audit add value to your organization?

Survey participants were requested to indicate how their internal audit activity adds value to the organization it supports by rating the following options using a scale from 1 (strongly disagree) to 7 (strongly agree):

- Identify cost savings within the organization (31a)
- Decrease in external audit fees (31b)
- Decrease in fraud acts (31c)
- Increase in executive management and governing bodies’ knowledge regarding risk management and internal control best practices (31d)
- Improvement of timely communication of relevant information for better decision-making (31e)
- Support for the implementation of the organization’s strategy (31f)
- Independent opinion on the significance of residual risks (31g)
- A catalyst for internal audit for an effective coordination of other assurance providers (31h)
INTERNAL AUDIT’S VALUE

The value of an internal audit activity is directly related to its perceived impact on the achievement of organizational goals and objectives. Survey results (see table 6.1) suggest that internal audit’s contributions to organizational performance can be grouped into four areas:

- Risk management issues
  - Increase in executive management and governing bodies’ knowledge regarding risk management and internal control best practices (31d)
  - Independent opinion on the significance of residual risks (31g)
- Better execution of organizational strategy
  - Improvement of timely communication of relevant information for better decision-making (31e)
  - Support for the implementation of the organization’s strategy (31f)
- Operational effectiveness
  - Identify cost savings within the organization (31a)
  - Decrease in fraud acts (31c)
- Coordination with other assurance providers
  - A catalyst for internal audit for an effective coordination of other assurance providers (31h)
  - Decrease in external audit fees (31b)

RISK MANAGEMENT

As Standard 2120: Risk Management stipulates, “The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.” Standard 2100: Nature of Work states, “The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.”

Moreover, a particular emphasis is being placed on boards and audit committees to better understand, evaluate, and monitor risk management systems. Top managers expect internal auditors to help them formalize risk management systems and create a reasonable level of awareness about risks and controls (Sarens & De Beelde, 2006). CAEs are aware that the internal audit activity will play an increasing role in risk management and governance (CBOK 2010).

Within this environment, internal audit can add value through:

- An increase in executive management and governing bodies’ knowledge regarding risk management and internal control best practices
- Independent opinions by internal audit regarding the significance of residual risks
As table 6.1 illustrates, survey participants overwhelmingly responded that their internal audit activities add value in these two areas.

As noted in chapter 2, effective QAIPs enable internal audit activities to identify areas for improvement, enhance audit staff skills, and develop systematic and disciplined audit processes. All three of these outcomes empower an internal audit activity to contribute to the improvement of risk management within the organization it supports.

However, there is still a gap between governance expectations regarding risk and internal audit’s approach. Some governance members have expressed this gap as follows:

An audit committee member states: “Internal audit does not detect emerging and unseen risks and remains focused on traditional issues. Senior managers keep the same vision without looking at emerging risks. Risk mapping is a formal exercise with limited interest.”

From a CAE: “Management has to accept that internal audit knows enough about the business to provide that guidance. Useful qualitative and declarative risk mapping connected to strategy is a concern for senior management.”

Internal audit activities should be able to leverage the results of their QAIPs to begin closing these gaps between governance expectations and internal audit’s approach.

**ORGANIZATIONAL STRATEGY**

Through its risk-based approach, internal audit can help provide reasonable assurance that the impact of major changes such as reorganizations, acquisitions, IT projects, new corporate structures, fluctuations in business risks, new regulatory requirements, etc. are managed effectively by the organization.

Internal audit plans should align with strategic business plans; such alignment implies a keen understanding of organizational strategy on the part of the internal audit activity. More precisely, internal audit can add value through:

- Timely communication of relevant information for better decision-making. Timeliness is important in a context of uncertain environment. Prompt closure of audit issues is often viewed as a positive indicator of internal audit performance. Relevant information must be accurate and reliable, which includes making information accessible to those who need it, analyzing data using valid methods, and writing findings based on factual analysis balanced with experience and professional judgment.

- Support for the implementation of the organization’s strategy. For some CAEs who were interviewed, this support means: “Understanding the strategy to provide focus for our annual audit planning and detailed engagement planning,” and “The alignment with the organization’s objectives and values is considered a pillar of internal audit.” This alignment exercise can only be performed after a strong understanding of the business issues and several discussions with senior management.
Results displayed in table 6.1 demonstrate that a majority of survey respondents signified their internal audit activities add value in these two areas. As noted in Risk Management above, effective QAIPs produce outcomes that enable an internal audit activity to add value within the organization it supports. A key result from a successful QAIP mentioned in chapter 2 is attention paid to stakeholders, which leads to understanding the need for timely communication of relevant information and support for implementation of strategy. Building on their contributions to more effective risk management across their organizations, internal audit activities with successful QAIPs can add value in support of organizational strategy.

For an external stakeholder, this vision of the strategic role of internal audit may seem unlikely, as internal controls and internal audit effectiveness are rarely regarded as a competitive advantage for organizations. If internal control and internal audit effectiveness were perceived as a competitive advantage by external stakeholders, this concept of the strategic role of internal audit would appear more credible. An external stakeholder who was interviewed stated, “Internal audit is too focused on comfortable ‘micro-subjects’ such as operational audits of subsidiaries. It would be more beneficial [for internal audit] to review the quality of the [overall] monitoring system [that oversees] investing or disinvesting strategy.”

**OPERATIONAL EFFECTIVENESS**

Even though the percentage of responses for operational effectiveness are lower than for other areas surveyed in question 31 (see table 6.1), a majority of the respondents indicated their internal audit activities add value through their role in:

- Identifying cost savings within the organization
- Achieving a decrease in fraudulent acts

The lower percentage regarding fraud seems inconsistent with responsibilities established in Standard 2120.A2, “The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.”

It may be difficult to be precise in determining the value associated with these activities, as noted by one CAE who stated, “My organization thinks the internal audit department is moving beyond auditing in questioning management decisions even if those decisions are costing the company money. They are more interested in compliance auditing and want no advice. Due to a change in our governance structure, initiatives regarding the quality of our work are not highly regarded.”

**COORDINATION WITH OTHER ASSURANCE PROVIDERS**

Standard 2050: Coordination describes mandatory guidance for the CAE in coordinating activities with other assurance providers to minimize duplication of efforts. The survey question provided an opportunity for respondents to recognize two ways an effective QAIP could add value to their internal audit activity:

- A catalyst for an effective coordination of other assurance providers
- Decrease in external audit fees

Only about one third of the survey respondents state they add value by decreasing external audit fees (see table 6.1), while nearly half indicated their efforts do not result in reduced external audit fees.
However, a majority of survey participants noted they add value through better coordination with the activities of other assurance providers.

**OTHER VALUE-ADDED ACTIVITIES**

Other ways to add value that were spontaneously suggested by survey respondents reflect the current definition of internal auditing:

- Continuous improvement culture
- Providing assurance
  - Enhancing for audit clients and for internal auditors
  - Through better control within operational systems
  - Developing future managers
  - Identifying opportunities to improve business profitability
  - Strengthening the control environment
- Advisory activities
- Compliance and proactivity toward external auditor/regulator expectations
INTERNAL AUDIT EFFECTIVENESS AND EFFICIENCY

Successful QAIPs should enhance the effectiveness and efficiency of internal audit activities. Our interest was in learning how the survey participants measured their performance.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completion of internal audit plan</td>
<td>74%</td>
</tr>
<tr>
<td>Acceptance rate/completion rate of internal audit recommendations</td>
<td>65%</td>
</tr>
<tr>
<td>Client/stakeholder satisfaction surveys</td>
<td>42%</td>
</tr>
<tr>
<td>Number of management requests for assurance or consulting services</td>
<td>38%</td>
</tr>
<tr>
<td>Cycle times monitored throughout process (i.e., kickoff meeting to final report)</td>
<td>34%</td>
</tr>
<tr>
<td>Budget to actual use of resources</td>
<td>16%</td>
</tr>
<tr>
<td>Internal audit’s assistance requested by external auditors</td>
<td>14%</td>
</tr>
</tbody>
</table>

Question 32: What are the three most important criteria used to assess the effectiveness and efficiency of your internal audit processes? (Total valid responses: 1,001)

Note: Respondents could choose three responses from the following list:
- Completion of internal audit plan
- Cycle times monitored throughout process (i.e., kickoff meeting to final report)
- Acceptance rate/completion rate of internal audit recommendations
- Budget to actual use of resources
- Client/stakeholder satisfaction surveys
- Number of management requests for assurance or consulting services
- Internal audit’s assistance requested by external auditors
- Other(s), please specify

Percentages reported in figure 6.1 note the frequency that survey participants selected a particular criteria. It appears that respondents’ most important criteria for internal audit effectiveness and efficiency are primarily oriented toward audit delivery objectives (Completion of internal audit plan, Acceptance rate/completion rate of internal audit recommendations). The second tier of criteria identified by survey participants focuses on customer satisfaction levels (Client/stakeholder satisfaction surveys; Number of
management requests for assurance or consulting services) and engagement process cycle times (Cycle times monitored throughout process, i.e., kickoff meeting to final report).

The top five criteria selected by survey respondents (figure 6.1) align with key outcomes from successful QAIPs discussed in chapter 2. These include effective process execution (systematic documentation and evaluation of critical processes), audit client satisfaction (paying attention to customer/stakeholder satisfaction), and efficient staff performance (internal auditor’s professionalism and specialized skills).

The two remaining criteria received little interest based on survey responses:

- Traditional performance metrics such as budget to actual use of resources
- Assistance requested by external auditors

Other comments regarding efficiency and effectiveness from the survey were:

- Quality of findings (impactful audit findings, managing audit reputation risk), which are linked to recommendations
- Robust recommendations: prioritized, clearly stating the problem, and providing solutions (“Not just: Hi, we have big issues here!”)
- Percentage of staff doing direct audit work, i.e., billable hours in professional services
- Satisfaction from regulator or parent company
- Customer satisfaction measured through tools such as Net Promoter Score®
- Recoveries from vendor and joint interest audits

An external stakeholder commented that internal audit effectiveness is connected to:

- Focus on performance and efficiency to demonstrate quality
- Enhanced IT competencies to review complex processes
- Ability to integrate enterprise risk management (ERM), internal control, and internal audit

**IMPLICATIONS FOR PRACTITIONERS**

- CAEs should assess value added by their own internal activities within the four areas noted above: risk management issues, better execution of organizational strategy, operational effectiveness, and coordination with other assurance providers. From this assessment, CAEs may identify actions needed to enhance the capability of their internal audit activities to improve their contributions in these four areas.

- Capability assessments for an internal audit activity should lead to the identification of areas for improvement, which can be linked to the beneficial outcomes of successful QAIPs discussed in this chapter. These are systematic
documentation and evaluation of critical processes, paying attention to customer/stakeholder satisfaction, and internal auditors’ professionalism and specialized skills.

- Key performance indicators for the internal audit activity should be aligned with the expectations of stakeholders and reflect the value derived from an effective QAIP. IIA Practice Guide, Measuring Internal Audit Efficiency and Effectiveness, outlines a process for developing relevant metrics and offers suggested measures for CAEs to consider.
COMMUNICATING RESULTS OF SUCCESSFUL QAIPS

CAEs understand the role a QAIP plays in influencing the whole organization by supporting its governance and risk management processes and delivering value as described in previous chapters. Effective communication of the results of a QAIP helps assure that these benefits are realized.

Standard 1320: Reporting on the Quality Assurance and Improvement Program states:

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

**Interpretation:**

The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor’s or assessment team’s evaluation with respect to the degree of conformance.

The survey results confirmed that the primary recipients of communications regarding results of a QAIP are the board and senior leadership, which is consistent with the mandatory guidance outlined in the IPPF.

Fewer than one in five survey respondents who have a QAIP in place (or plan to implement one within 12 months) are reporting on the return on investment earned by their QAIPs. This represents an opportunity for CAEs to enhance the discussion of the QAIPs with key stakeholders.

External reporting of QAIP results is not required by the mandatory guidance contained in the IPPF. However, there were examples of such reporting, which may represent another opportunity for CAEs to raise awareness of the benefits derived from successful QAIPs.
RECIPIENTS OF QAIP COMMUNICATION

The 61% of survey respondents who stated they currently had a QAIP in place or planned to implement one within 12 months (see figure 1.1) were further asked about how they communicate results of their QAIP.

![Figure 7.1. Communication](image)

**Question 30:** How do you communicate internally and externally on your QAIP? (Total valid responses: 589)

*Note:* Respondents were allowed to choose multiple responses. Figure 7.1 summarizes the percentage of responses chosen by the 589 participants.

The outcome of survey question 30 confirmed that governing bodies are the primary target audience for communication of QAIP results. The leading recipients of QAIP communications are the board and senior management (see figure 7.1).

Figure 7.1 also highlights that external reporting of QAIP results mostly occurs in annual reports, communications with the external auditors, and reports on corporate governance and internal control. Internet reporting or press releases are rarely used.

Other forms of communication included in survey comments are:

- Reference in audit reports
- Internal audit presentation tools
- Internal audit strategic plan or value report
Table 7.1. Communication – Regional Responses

<table>
<thead>
<tr>
<th>Communication</th>
<th>Global</th>
<th>Regions in Excess of the Global Response</th>
<th>Regions Less Than the Global Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific report to the board</td>
<td>62%</td>
<td>North America (77%)</td>
<td>Middle East (36%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Asia Pacific (46%)</td>
</tr>
<tr>
<td>Specific report to executive management</td>
<td>56%</td>
<td>Middle East (73%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Europe Central Asia (65%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Africa (67%)</td>
<td></td>
</tr>
<tr>
<td>Information in the annual report</td>
<td>38%</td>
<td>Central Europe Asia (62%)</td>
<td>North America (20%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Asia Pacific (26%)</td>
</tr>
<tr>
<td>Communication to the external auditors</td>
<td>31%</td>
<td>Middle East (45%)</td>
<td>Asia (20%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Western Europe (40%)</td>
<td>Latin America (11%)</td>
</tr>
<tr>
<td>Information in the report on governance and internal control</td>
<td>26%</td>
<td>Africa (42%)</td>
<td>North America (5%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Latin America (41%)</td>
<td></td>
</tr>
<tr>
<td>Information on the intranet</td>
<td>15%</td>
<td>Latin America (23%)</td>
<td>Africa (8%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Middle East (27%)</td>
<td></td>
</tr>
<tr>
<td>Information on Internet site</td>
<td>6%</td>
<td>Middle East (27%)</td>
<td></td>
</tr>
<tr>
<td>Press release</td>
<td>3%</td>
<td>Central Europe Asia (8%)</td>
<td>North America (0%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Middle East (9%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Latin America (11%)</td>
<td></td>
</tr>
</tbody>
</table>

Question 30: How do you communicate internally and externally on your QAIP?

Probably the most significant trend highlighted in table 7.1 is the near absence of any external reporting of QAIP results within the North American region. Other regions indicate some external reporting of QAIP results to varying degrees.

**QAIP ASSESSMENT SCALES**

Our research disclosed several assessment scales that have been developed to help internal auditors evaluate the current state of their quality capability:

- IIA Quality Assessment Manual Scale: Does Not Conform/Partially Conforms/Generally Conforms
- IIA (North America) Path to Quality Assessment Scale: Introductory/Emerging/Established/Progressive/Advanced
- IIA Internal Audit Capability Model (IA-CM) for the Public Sector: Initial/Infrastructure/Integrated/Managed/Optimizing
- DIIR (IIA Germany) and IFACI (IIA France) Guideline for Conducting a Quality Assessment: 3 (Satisfactory)/2 (Room for Improvement)/1 (Significant Improvement Needed)/0 (Unsatisfactory/Not Applicable)

**RETURN ON INVESTMENT**

The 61% of survey respondents who stated they currently had a QAIP in place or planned to implement one within 12 months (see figure 1.1) were further asked if they reported the return on investment for their QAIP investments.

<table>
<thead>
<tr>
<th>Table 7.2. Return on Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
</tbody>
</table>

Question 29: When reporting/communicating on your QAIP, do you quantify the return on investment of such a program? (Total valid responses: 600)

In chapter 2, we demonstrated that internal audit activities with a QAIP in place (or planning to implement one within 12 months) confirmed that an effective QAIP adds value to their internal audit activity consistent with their primary reasons to invest in a QAIP. Return on investment reporting could be used to highlight the benefits of the QAIP resulting from investments in quality. With so few respondents reporting return on investment for their QAIP, this represents a significant opportunity for CAEs to enhance their discussion of their QAIPs with key stakeholders.

<table>
<thead>
<tr>
<th>Table 7.3. Return on Investment – Regional Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
</tr>
<tr>
<td>18%</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Question 29: When reporting/communicating on your QAIP, do you quantify the return on investment of such a program? (Total valid responses: 600)

**EXTERNAL REPORTING OF QAIP RESULTS**

The IIA’s IPPF does not require external reporting of QAIP results; however, many other global quality assessment programs (e.g., International Organization for Standardization [ISO]) regularly produce external communication of quality program results. Some organizations provide such communication to their customers as part of their commercial agreements.
As displayed in figure 7.1, some external reporting of QAIP results occurs in annual reports and reports on corporate governance and internal control. Our interest was in discovering how extensive voluntary external communication was occurring regarding the results of QAIPs by internal audit activities (possible consideration as a leading practice?). If QAIPs and external assessments are considered valuable to stakeholders, one would expect this value to be communicated externally.

During the in-depth interviews conducted as part of the overall research project (see appendix C), interviewees indicated that external reporting of QAIP results is very rare. A few respondents mentioned examples of external reporting—public sector reporting to a supreme audit institution, reporting between peers (again, public sector), and two examples within a highly regulated and competitive financial services sector. Two interviewees specifically mentioned a recognition ceremony related to successful results from external assessments.

We used a research engine (Factiva) to browse newspapers from 2005 (year of the first IFACI external assessment) through 2012. We found no articles focusing on QAIPs or the results of an external assessment of any internal audit activity. We did find articles containing a discussion of the external assessment process as part of interviews with the CEO of IFACI where QAIPs were mentioned.

Next, we performed a document review for the 40 firms contained in the CAC 40 index (a benchmark French stock market index). As the name suggests, the index comprises the 40 most significant values among the 100 highest market caps on the Paris stock exchange—Euronext Paris. The goal was to understand how firms value and communicate the results of their QAIPs.

More precisely, the research was aimed at:

- Determining the way listed firms communicate on internal audit quality and its management in their annual reports
- Analyzing the way externally assessed internal audit departments value and communicate on their QAIP in their annual reports, on their Internet site, and in other media
- Evaluating the emphasis placed on those topics in their reports, on their Internet site, and in other media

**QAIP Results Included in Annual Reports**

For CAC 40 index companies, when a paragraph or a sentence related to internal audit quality or internal audit quality management, or when internal audit QAIPs appear in the annual report, they are included in the Report on Internal Control and Corporate Governance. They are most often in the report section where diverse divisions responsible for steering internal control are described. In one instance, a company mentioned internal audit quality in a section titled “Standards and Instructions.” The excellence of the internal audit activity is mentioned in the message from the chairman and CEO.
Table 7.4. Quality Topics Included in Annual Reports by the CAC 40

<table>
<thead>
<tr>
<th>Quality Topic</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit quality/performance/value added/excellence</td>
<td>14</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Internal audit QAIP</td>
<td>11</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>External assessment of internal audit quality</td>
<td>9</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>IFACI external assessment</td>
<td>8</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

Table 7.4 displays the number of annual reports issued by the CAC 40 we identified as mentioning or developing the following topics:

- Internal audit quality and/or internal audit performance and/or internal audit value added and/or internal audit excellence
- Internal audit QAIPs
- External assessment of internal audit quality
- External assessment conducted by IFACI

The table indicates an increase in comments related to internal audit quality (and/or performance and/or value added and/or excellence) in annual reports between 2009 and 2011. Companies that mention one or several of those concepts, but not necessarily allude to a QAIP, also highlight one of the following facts:

- The audit committee has examined internal audit work and noticed that its quality has improved.
- Corporate audit regularly reviews the quality and performance of audit teams in subsidiaries.
- The internal audit activity has implemented a road map based on several key concepts, among them quality, performance, and value added.
- The internal audit activity complies with professional standards.
- The internal audit activity has received a quality recognition from IFACI.
Table 7.5. Mentions of QAIP in CAC 40 Annual Reports

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average number of words (when a QAIP is mentioned)</td>
<td>50</td>
<td>59</td>
<td>54</td>
</tr>
</tbody>
</table>

From our review of CAC 40 annual reports.

Table 7.5 presents a consistent trend in the average number of words included in annual reports regarding quality. We categorized annual report citations regarding audit quality as short, average, or long.

Table 7.6. Examples of Quality Citations in Annual Reports

<table>
<thead>
<tr>
<th>Short Citation</th>
<th>Citation of Average Length</th>
<th>Long Citation</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Since 2009, the internal audit activity has been evaluated in accordance with international Internal Auditing Standards by IFACI Certification.”</td>
<td>“Following an outside assessment performed in 2008, an independent assessment will be conducted in 2012 on the Corporate Audit Division and the “business line” audit services. The assessment will cover the functioning of the key processes for these entities, compliance with professional standards, and the quality of the audits undertaken.”</td>
<td>“X Internal Audit was awarded IFACI certification in October 2007, which was successfully renewed in December 2010 for a 3-year period. IFACI is the French branch of the international Institute of Internal Auditors (IIA). This is the result of a long process launched at the end of 2005 with an external review of Internal Audit performance. The certification demonstrates that X Internal Audit is compliant with The IIA’s Standards, including independence and objectivity, proficiency and due professional care, quality assurance and improvement program, nature of work, communication of results.”</td>
</tr>
</tbody>
</table>

Firms Assessed by IFACI

We examined 35 out of 41 annual reports published in 2011 by organizations where the internal audit activity was assessed by an IFACI certification team. Twenty-three out of 35 reports we reviewed contained specific references to the external assessment. Listed firms place this reference in the report on corporate governance and internal control. The average number of words used was 48.

Three out of 23 organizations externally assessed in 2012 by an IFACI certification team communicated regarding external assessments on their website. They placed emphasis on the “international label” and the “recognition of the professionalism of their internal audit teams.” Two of them also refer to the ceremony given by IFACI to recognize results of the external assessment. One organization included a video of the IFACI presentation ceremony on its website.

The website of an organization evaluated in 2010 still displays this information in the “communication” rubric. The chairman and CEO declares, “This recognition demonstrates the commitment of our audit activity to the International Professional Practices Framework (IPPF) and its added value to the Agency. In addition to this, it illustrates the Agency’s commitment to good governance and its drive for continuous improvement in a control environment.” The assessment process is then described. Finally, some best practices are highlighted: “In conjunction with a positive assessment against the Standards, the external assessor noted some best practices, including the presence of the audit activity in the Integrated
Management System of the Agency, the integration of the fundamentals of the International Internal Audit Framework and transparency through the Agency intranet, where the charter, procedures, and the annual audit program are published.”

**IMPLICATIONS FOR PRACTITIONERS**

Better communication oriented toward the value of effective QAIPs, with targeted messages for specific stakeholders, would underscore the credibility of the internal audit activity and its contribution to the effectiveness of internal control and risk management systems. Reporting of return on investment related to QAIPs might facilitate this process.

When the external assessment credential is awarded during a ceremony where governing bodies express their support to internal audit, communicating that information internally will help promote the value of the QAIP across the organization. CAEs should evaluate the opportunity to develop company-level external communication to enhance awareness of the benefits derived from successful QAIPs among external stakeholders.
Conclusion

WHAT IS NEXT FOR INTERNAL AUDIT QUALITY MANAGEMENT?

QAIPs should be designed to identify potential areas for improvement within internal audit operations. Based on a thorough self-assessment of the internal audit activity and an understanding of the IPPF’s mandatory guidance, CAEs should develop a vision for building and sustaining a successful QAIP. In establishing convincing and relevant areas for improvement, CAEs should seek input from qualified independent external assessors.

CAEs should promote their QAIP as a source of value added in support of organizational objectives—strategic and operational. A high-performing internal audit activity contributes to achieving organizational objectives through its systematic, disciplined internal audit processes and the competencies of internal audit staff. Its processes and personnel enable the activity to build credibility within the organization, resulting in an enhanced ability to meet or exceed stakeholder expectations.

Although resource constraints can be a barrier to successfully building and sustaining an effective QAIP, CAEs need to develop a cost-benefit justification for investing in one that highlights the value to be gained for both the internal audit activity and the organization it supports. Building support for a QAIP requires open communication between CAEs and stakeholders to obtain agreement on internal audit services that add value in meeting organizational objectives. The IIA Practice Guide, Measuring Internal Audit Effectiveness and Efficiency, offers suggestions regarding enhancing the dialogue with key stakeholders.

Addressing resource constraints in establishing their QAIP will require CAEs to consider integrating their ongoing monitoring activities within their internal audit activity’s normal operations. This approach is consistent with IIA Practice Guide, Quality Assurance and Improvement Program, which states, “Quality should be built in to, and not on to, the way the activity conducts its business—through its internal audit methodology, policies and procedures, and human resource practices.”

To further address the issue of time and staff constraints, CAEs should consult The IIA’s Quality Assessment Manual for the Internal Audit Activity for tools that enable integration of ongoing assessments into the daily operation of internal audit activities. Integrating quality into day-to-day audit activities reduces the need for “extra” staff time devoted to QAIP and supports development of a systematic, disciplined internal audit process.

Practitioners agree that successful QAIPs require leadership and support from CAEs as well as active participation and involvement by internal audit staff. To embed internal assessments into daily tasks, outputs should be visible and discussed with staff to reinforce their involvement. QAIP initiatives should be linked with staff training programs and established as part of normal job routines. CAEs should develop quality key performance indicators (KPIs) at the engagement level.

KPIs for the internal audit activity should be aligned with the expectations of stakeholders and reflect the value derived from an effective QAIP. IIA Practice Guide, Measuring Internal Audit Efficiency and Effectiveness, outlines a process for developing relevant metrics and offers suggested measures for CAEs to consider.
Better communication oriented toward the value of effective QAIPs, with targeted messages for specific stakeholders, would underscore the credibility of the internal audit activity and its contribution to the effectiveness of internal control and risk management systems. Reporting of return on investment related to QAIPs might facilitate this process.
Appendix A

GLOBAL SURVEY QUESTIONS

Date: 11/6/2012
Number of Responses: 1,013
Invited: Directors and CAEs worldwide

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM: DRIVERS, OUTCOMES, AND KEY SUCCESS FACTORS

This survey should take about 15 minutes to complete and closes at the end of the day Friday, Nov. 2. All information collected will be kept confidential. Thank you for your time and feedback.

Background Information

1. Please select the location in which you primarily practice professionally: [Respondents chose from a list of countries.]

2. Please select the type of organization for which you currently work:
   - [ ] Privately held (non-listed) company
   - [ ] Publicly traded (listed) company
   - [ ] Public sector/government
   - [ ] Not-for-profit organization
   - [ ] Other, please specify:

3. Please select the broad industry of the organization for which you work:
   - [ ] Banking, financial institutions, and insurance
   - [ ] Utilities
   - [ ] Health services
   - [ ] Energy, oil, and gas
   - [ ] Manufacturing
   - [ ] Public administration, compulsory social security
   - [ ] Transportation
   - [ ] Wholesale, retail
3a. What is your current position or level in internal audit?

- Head or chief audit executive (the most senior audit officer for the organization with ultimate responsibility for the entire internal audit activity)
- Director (reports to the most senior audit officer; authorized to direct a broad, comprehensive program of internal auditing within the organization)
- Other, please specify:

3b. Please select your institute name: [Respondents chose from a list of institute names.]

- Other institute: 
  Please specify: ____________________________

4. Please indicate the approximate number of employees in your organization (as of December 31, 2011):

- Fewer than 100 employees
- 101–500
- 501–1,000
- 1,001–2,500
- 2,501–5,000
- 5,001–10,000
- 10,001 or more

5. Is there an audit committee or equivalent in your organization?

- Yes
- No

6. Is there any legal or regulatory requirement for an internal audit activity in your organization?

- Yes
- No
7. Is there any legal or regulatory requirement for external reporting on internal control?
   ___ Yes
   ___ No

8. To what extent do external auditors use the work of (i.e., rely on) your internal audit activity?
   ___ 1 — Not at all   ___ 2   ___ 3   ___ 4   ___ 5 — Very much

9. How long has your organization’s internal audit activity been in place?
   ___ 0–5 years
   ___ 6–10 years
   ___ 11–25 years
   ___ > 25 years

10. Please indicate the number of employees (full-time equivalent) in your internal audit activity:
    ___ 1
    ___ 2–5
    ___ 6–10
    ___ 11–20
    ___ 21–50
    ___ > 50

**Quality Assurance and Improvement Program (QAIP)**

11. How would you rank the three main stakeholders of your internal audit activity? Rank the top three, with 1 being the most important.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit committee</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External auditors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulators</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate internal audit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other internal assurance providers</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
11b. Has your internal audit activity implemented a quality assurance and improvement program (QAIP), including ongoing or periodic internal assessments or external assessments?

_____ Yes
_____ No
_____ To be implemented within 12 months

12. As part of the QAIP, which component(s) of an ongoing internal assessment is (are) implemented in your internal audit activity?

<table>
<thead>
<tr>
<th>Component</th>
<th>Yes</th>
<th>To be implemented within 12 months</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervision of engagements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular, documented review of workpapers during engagements by appropriate internal audit staff</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit policies and procedures used for each engagement to ensure conformance with applicable planning, fieldwork, and reporting standards</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feedback from customer survey on individual engagements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analyses of performance metrics established to improve the internal audit activity’s effectiveness and efficiency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All final reports and recommendations are reviewed and approved by the chief audit executive (CAE)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12a If you selected “Other” as a component that has been or will be implemented, please specify it here:

________________________________________________________________________________________

________________________________________________________________________________________
13. As part of the QAIP, which component(s) of a periodic internal assessment is (are) implemented in your internal audit activity?

<table>
<thead>
<tr>
<th>Component</th>
<th>Yes</th>
<th>To be implemented within 12 months</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biannual customer survey</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual risk assessments for purposes of annual audit planning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Semiannual workpaper reviews for performance in accordance with internal audit policies and The IIA’s International Standards for the Professional Practice of Internal Auditing (Standards)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual review of findings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review of internal audit performance metrics and benchmarking of best practices, prepared and analyzed in accordance with audit policies and procedures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Periodic activity and performance reporting to the president and the audit committee</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13a. If you selected “Other” as a component that has been or will be implemented, please specify it here:

________________________________________________________________________

________________________________________________________________________

14. Which other component(s) of a QAIP is (are) implemented in your internal audit activity?

<table>
<thead>
<tr>
<th>Component</th>
<th>Yes</th>
<th>To be implemented within 12 months</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal assessment by other individuals in the organization</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-assessment with external independent validation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full external assessment</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

15. What are the three most important reasons why an internal audit activity should invest in a QAIP? (Choose up to three)

   _____ To be in full conformance with IIA Standards
   _____ To anticipate, meet, or exceed stakeholders’ expectations
   _____ To identify areas in need of improvement
   _____ To increase the weight/credibility of the internal audit activity within the organization
To increase the reputation of the organization
To bring a systematic, disciplined internal audit approach
To be in greater support of the strategy
To contribute to the effectiveness of the financial reporting process
Other, please specify:

16. What are the three most important obstacles that hamper the implementation of the QAIP in your internal audit activity or prevent it from investing in a QAIP? (Choose up to three)

Increase of bureaucratization
Increase of paper workload
Financial cost
Lack of staff to supervise engagements effectively
Waste of time
Too theoretical
Other, please specify:

17. How is the CAE supported by the following groups to implement QAIPs? Indicate the level of involvement, with 1 indicating “Not involved” and 7 indicating “Strongly supportive.”

<table>
<thead>
<tr>
<th>Board of directors</th>
<th>1 — Not involved</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7 — Strongly supportive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit committee</td>
<td>1 — Not involved</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7 — Strongly supportive</td>
</tr>
<tr>
<td>Executive management</td>
<td>1 — Not involved</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7 — Strongly supportive</td>
</tr>
</tbody>
</table>

17b. Other supportive or strongly supportive group:

Please specify:

18. Is the QAIP of your internal audit activity linked to a comprehensive quality program at the organization level?

Yes
No
19. Do you think that having an effective QAIP in place has added value to your internal audit activity through:

19a. Better use of resources?
   1 — Strongly disagree  2  3  4  5  6  7 — Strongly agree

19b. Attention paid to customers'/stakeholders’ perception and satisfaction?
   1 — Strongly disagree  2  3  4  5  6  7 — Strongly agree

19c. Enhanced internal auditors’ professionalism and specialized skills?
   1 — Strongly disagree  2  3  4  5  6  7 — Strongly agree

19d. A sense of accomplishment and satisfaction for internal auditors?
   1 — Strongly disagree  2  3  4  5  6  7 — Strongly agree

19e. Systematic documentation and evaluation of the performance of critical processes?
   1 — Strongly disagree  2  3  4  5  6  7 — Strongly agree

19f. Identification of critical areas and points for improvement?
   1 — Strongly disagree  2  3  4  5  6  7 — Strongly agree

19g. Improving the organization’s reputation?
   1 — Strongly disagree  2  3  4  5  6  7 — Strongly agree

20. How many times has your internal audit activity been externally assessed?

   _____ Once
   _____ Two or three times
   _____ More than three times
   _____ Never

21. Is the QAIP of your internal audit activity in full conformance with IIA Standard 1312 requiring an external assessment at least once every five years?

   _____ Yes
   _____ Planned for the next 12 months
   _____ No
21a. If your internal audit activity is not in full conformance with IIA Standard 1312, please explain why not. (Choose all that apply)

- Our internal audit activity is a small audit shop
- Our stakeholders don’t see the value added of an external assessment
- External assessment is too expensive
- Our internal audit activity is new (in operation for less than five years)
- The CAE is confident about the results of the other components of the QAIP
- Other reasons; please specify: ________________________________

22. What are the three most important reasons for conducting an external quality assessment? (Choose up to three)

- To increase the perceived value of the internal audit activity within the organization
- To meet or exceed stakeholders’ expectations
- To benchmark our internal audit practices
- To raise the awareness among management of internal audit professional standards
- To be in full conformance with IIA Standards
- To set an example: “The internal audit activity is also audited”
- To increase the reputation of the organization

23a. Who conducted the internal audit activity’s most recent external assessment?

- An IIA institute
- Peers
- Big Four (major external audit and advisory firms)
- Other, please specify: ________________________________
- Not applicable

23b. If an external assessment is planned in the upcoming 12 months, who will conduct it?

- An IIA institute
- Peers
- Big Four (major external audit and advisory firms)
- Other, please specify: ________________________________
- Not applicable
24. Please indicate the amount of the external assessment, whether recent or upcoming, as applicable:

<table>
<thead>
<tr>
<th>Amount paid for the most recent external assessment</th>
<th>0–USD15k</th>
<th>USD15,501–USD30,000</th>
<th>USD30,001–USD50,000</th>
<th>USD50,001–USD70,000</th>
<th>USD70,001–USD100,000</th>
<th>More than USD100,000</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>If an external assessment is planned in the upcoming 12 months, amount budgeted for it</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

25. Please indicate the type of review, whether recent or upcoming, as applicable:

<table>
<thead>
<tr>
<th>The type of the internal audit activity's most recent external assessment</th>
<th>Self-Assessment with Independent External Validation</th>
<th>Full External Assessment</th>
<th>Peer Review</th>
<th>Not Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>If an external assessment is planned in the upcoming 12 months, specify the type of this assessment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

26. What percentage of your audit plan (staff time) is dedicated to QAIP activities?

- [ ] None
- [ ] < 5%
- [ ] 6–10%
- [ ] 11–20%
- [ ] > 25%
27. Which standard(s) of reference do you use to assess the effectiveness and efficiency of your processes? (Choose all that apply)
   
   ____ IPPF
   ____ ISO 9001
   ____ Total quality management (TQM)
   ____ Other, please specify: 
   ____ None

28. What are the key factors for a successful implementation of a QAIP?

28a. Governing bodies’ involvement 
   1 — Strongly disagree  2  3  4  5  6  7 — Strongly agree

28b. Support from executive management 
   1 — Strongly disagree  2  3  4  5  6  7 — Strongly agree

28c. Internal auditors’ involvement and motivation 
   1 — Strongly disagree  2  3  4  5  6  7 — Strongly agree

28d. CAE leadership 
   1 — Strongly disagree  2  3  4  5  6  7 — Strongly agree

28e. Other factor for successful implementation of a QAIP:
   Please specify: ______________________________

29. When reporting/communicating on your QAIP, do you quantify the return on investment of such a program? 
   ____ Yes 
   ____ No

30. How do you communicate internally and externally on your QAIP? (Choose all that apply) 
   ____ Information in the annual report 
   ____ Information in the report on governance and internal control 
   ____ Specific report to executive management 
   ____ Specific report to the board
Information on Internet site
Information on the intranet
Press release
Communication to the external auditors
Other, please specify:

**Internal Audit Quality: Conception, Determinants, and Consequences**

31. How does internal audit add value to your organization?

31a. Identify cost savings within the organization

<table>
<thead>
<tr>
<th>1 — Strongly disagree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7 — Strongly agree</th>
</tr>
</thead>
</table>

31b. Decrease in external audit fees

<table>
<thead>
<tr>
<th>1 — Strongly disagree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7 — Strongly agree</th>
</tr>
</thead>
</table>

31c. Decrease in fraud acts

<table>
<thead>
<tr>
<th>1 — Strongly disagree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7 — Strongly agree</th>
</tr>
</thead>
</table>

31d. Increase in executive management and governing bodies’ knowledge regarding risk management and internal control best practices

<table>
<thead>
<tr>
<th>1 — Strongly disagree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7 — Strongly agree</th>
</tr>
</thead>
</table>

31e. Improvement of timely communication of relevant information for better decision-making

<table>
<thead>
<tr>
<th>1 — Strongly disagree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7 — Strongly agree</th>
</tr>
</thead>
</table>

31f. Support for the implementation of the organization’s strategy

<table>
<thead>
<tr>
<th>1 — Strongly disagree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7 — Strongly agree</th>
</tr>
</thead>
</table>

31g. Independent opinion on the significance of residual risks

<table>
<thead>
<tr>
<th>1 — Strongly disagree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7 — Strongly agree</th>
</tr>
</thead>
</table>

31h A catalyst for internal audit for an effective coordination of other assurance providers

<table>
<thead>
<tr>
<th>1 — Strongly disagree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7 — Strongly agree</th>
</tr>
</thead>
</table>

31i. Other way that you agree or strongly agree that internal audit adds value to your organization:

Please specify: ________________________________
32. What are the three most important criteria used to assess the effectiveness and efficiency of your internal audit processes?

___ Completion of internal audit plan
___ Cycle times monitored throughout process (i.e., kickoff meeting to final report)
___ Acceptance rate/completion rate of internal audit recommendations
___ Budget to actual use of resources
___ Client/stakeholder satisfaction surveys
___ Number of management requests for assurance or consulting services
___ Internal audit’s assistance requested by external auditors
___ Other(s), please specify: ______________________________________________________

33. If you would like to take part in the drawing for one of 25 free copies of the report, including the results of this research, please provide your email address:

Email: __________________________________________________________________________
PROFESSIONAL SUPPORT MATERIALS FOR QAIPS

The IPPF *Standards* series 1300 lists all relevant mandatory guidance regarding internal audit quality. They are supported by recommended guidance outlined in the IPPF Practice Advisory series 1300.

Other appropriate IIA publications include the following:
- The IIA’s *Quality Assessment Manual for the Internal Audit Activity*, 2013

The website for IIA North America Quality Services is noted below:
https://na.theiia.org/services/quality/Pages/Quality-Assurance.aspx
Appendix C

RESEARCH METHODOLOGY

ACADEMIC LITERATURE REVIEW

Despite increasing attention paid to the role of the internal audit activity within corporate governance, only limited academic research has examined internal audit quality and its management. Marais (2004) analyzed the formal prescriptions and guidelines on quality in internal audit activities contained in the internal auditing standards and related practice advisories. Other studies (Burns et al., 1994; Megan et al., 1997; Leung & Cooper, 2009; Burnaby et al., 2009; Soh et al., 2011) spot the link between professionalism and implementation of IIA Standards. However, the academic research mainly focused on a client-oriented view of internal audit quality.

In assessing the quality and effectiveness of the internal audit activity, Gramling et al. (2004) suggest that consideration should be given to the party relying on the work of internal audit. They state that quality may vary according to which party is using the work of internal audit.

Academic research has predominantly focused on the quality of internal audit from the external auditor’s perspective (DeZoort et al., 2001). Factors such as independence, objectivity, proficiency, and performance have been used as indicators of its quality (Messier and Schneider, 1988; Krishnamoorthy, 2002; Suwaidan and Qasim, 2010) and suggest that the extent of reliance the external auditor places on the work of the internal audit activity is positively related to these factors. Matarney (2011) discusses guidance used by external auditors before relying on internal auditors’ work.

Yet some researchers acknowledged that evaluation of the quality of the internal audit activity needs to consider a wider set of measures, including the consideration of quality from the perspective of other actors in the corporate governance theater (Coram et al., 2008). For example, it is important to be aware of the significant role the audit committee plays in determining the quality of the internal audit activity, given its resource allocation and oversight responsibilities pertaining to the internal audit activity (Gramling et al., 2004). According to Krishnamoorthy and Maletta (2008), the quality of internal audit is positively linked to the governance strength of the board, expertise of the audit committee on accounting, and the level of coordination between external auditors and the internal audit activity.

The positive impact of internal audit quality on internal audit effectiveness, internal control, management, reporting, and governance has been highlighted by several researchers. For instance, Dessalegn and Aderajew (2007) reveal that internal audit effectiveness is strongly influenced by internal audit quality and management support, whereas organizational setting and auditee attributes do not have a strong impact on audit effectiveness. Prawitt et al. (2009) find evidence that the quality of the internal audit activity is associated with a moderation in the level of earnings management. Fadzil et al. (2005) show that the quality of the internal control system of a listed company is affected by the level of compliance of their internal audit activity to IIA Standards. Hutchinson and Zain (2009) explore whether the relation between internal audit quality and firm performance is associated with firm characteristics of information asymmetry and uncertainty (growth opportunities) and certain governance controls (audit committee effectiveness). The results reveal that the association between internal audit
quality and firm performance is stronger for firms with high growth opportunities and that this positive association is weakened by increasing audit committee independence.

To increase the benefits of internal audit quality, it is necessary to implement methods and tools to continuously improve it. A few researchers analyzed the different quality management approaches and their relevance for internal auditing.

For example, Rezaee (1996) suggests that total quality management (TQM) is a way to achieve continuous quality improvements in internal audit activities. The author proposes examining TQM principles and their implications for internal audit activities and discussing the benefits of proper implementation of TQM techniques and tools for internal audit departments, internal auditors, and their organizations. TQM is defined as “an integrated effort to gain competitive advantages continuously in improving all aspects of business activities and by striving for the goal of satisfied customers.” When this definition applies to the internal audit activity, it means the ability, willingness, and commitment of internal auditors to anticipate, satisfy, and possibly exceed the expectations of major claimants of their internal audit services.

TQM attributes and characteristics that are directly related to internal auditors are “continuous quality improvement of internal audit activities, understanding the organization’s needs and satisfying its internal audit services, encouraging compliance with professional standards, managerial policies and procedures, professional ethical standards, and other applicable laws and regulations by all personnel within the internal audit department, promoting management by objective in performance evaluation, promotion, and advancement activities, developing strategic planning and implementation techniques to achieve short-run as well as the long-term total quality goal of internal audit activities adopting TQM philosophy in carrying out the day-to-day activities of the internal audit department, emphasizing team work, participation, and employee training, development programs, and continuing professional education.” The most important goal of TQM is to meet and exceed the needs of both internal and external customers. For further references on the link between TQM and internal audit quality, see Sharma, 2001; Gramling et al., 2004; Yasmeen & Alhatmi, 2010; and Soh and Martinov-Bennie, 2011.

Soh and Martinov-Bennie (2011) suggest significant expansion and refocus of the role of internal audit and perceptions of its effectiveness. However, according to them, “performance evaluation mechanisms of internal audit have not evolved contemporaneously. The misalignment between the role and evaluation gives rise to difficulty in assessing the extent to which the internal audit activity is meeting stakeholders’ expectations.”

In conclusion, the concept “customers/stakeholders” is central for the design and implementation of internal audit quality programs. QAIPs should create value for internal audit and its stakeholders. However, identifying internal audit’s customers/stakeholders and their expectations is not easy. Sarens et al. (2007 and 2009) discuss the relationship between internal audit and its key stakeholders (senior management and audit committee). Positioning internal audit as agent to the board/audit committee and, at the same time, as partner to management is challenging in practice. Internal audit activities should clarify the customer dimension in its organizational context (Lenz and Sarens, 2012).

RESULTS OF PREVIOUS SURVEYS

The IIA has supported several surveys with questions regarding QAIPs. A summary of the results follows.
In 2007, The IIARF conducted a survey titled External Quality Assessments — Sharing Results. It was designed to compile information from organizations that had recently undergone the external quality assessment process. The survey drew 74 responses, including 59.5% of responses from the public sector and 40.5% of responses from the private sector. About 10% of the responses were from organizations outside the United States. Key tools and techniques used by survey respondents include performing an internal assessment in accordance with Standard 1311 to prepare for the external quality assessment. Of the survey respondents, 87% stated that The IIA provided sufficient guidance in assisting with their organizations’ preparation for the external quality assessment. With regard to performance of the external quality assessment, 67% of respondents used The IIA’s external quality assessment services, while approximately 25% used a Big Four accounting firm or other service provider. Seven percent used their peer pool member as part of an independent reciprocal peer review arrangement. For peer review arrangements, 40% of respondents established their peer pool through a professional association. Other peer pool respondents used a known but independent auditor from a head office or a local university. Almost 85% of survey respondents found the recommendations received from the external quality assessment to be valuable. The majority of those who cited the recommendations as not adding value did so because their review team was ineffective in tailoring the external quality assessment to fit their organizations’ size or industry. The findings also revealed that one reason for low compliance with Standard 1300 is that internal audit is unregulated. Moreover, the size and maturity of the internal audit activity are significant factors.

In 2010, The IIARF conducted the second Global Internal Audit Survey from more than 13,500 practitioners in more than 107 countries. It provided interesting perspectives on the implementation status of Standard 1300: Quality Assurance and Improvement Program throughout the world. Compliance with Standard 1300 improved slightly from 2006 to 2010, as 38.4% indicated full compliance in 2010 compared to 32.8% in 2006. CAEs stated that only 31.3% of their organizations have internal audit QAIP in place. They also stated that 34.5% of their organizations had an external quality review in accordance with Standard 1312, while 50.9% have never had an external quality assessment in accordance with the Standards. The main reasons for noncompliance are the same as the primary reasons for not following the Standards in general: small size of internal audit staff, cost, and lack of management/board support. So Standard 1300 continues to be the standard with the lowest level of full compliance.

The IIA Austin Chapter Research Committee conducted a survey in December 2011 to get information on how internal audit activities conform to IIA Performance Standard 1311. The committee received 76 survey responses from six countries. Analysis of the survey results identified several points: although overall the size of the internal audit department does not drive whether or not internal quality assessments are conducted, a fewer proportion of respondents from departments with between 1–5 and 21–50 people reported conducting assessments. Many of the activities identified by respondents who conduct internal quality assessments are also performed
by departments that do not meet Standard 1311, highlighting the activities as best practice for ensuring quality. Respondents identified CAEs as the individuals who conduct the internal assessment; however, this shifts to either a staff member dedicated to quality assurance or audit managers/supervisors as the size of the department increases. While there were various responses, most indicated that internal assessments are conducted at least annually, which provides for communicating the results to senior management and the board annually. Results of internal assessments are being used to address performance and noncompliance with the Standards. A variety of performance metrics were reported as used. Whether a department conducts internal quality assessments does not drive what or whether metrics are used. Most internal audit departments that conduct internal quality assessments also report having a current external quality assessment. Respondents identified improved internal audit processes as the most important value from conducting internal quality assessments.

IN-DEPTH INTERVIEWS

The use of semi-structured interviews combined with a questionnaire-based survey approach facilitated an in-depth insight and understanding of:

- Perceptions of internal audit quality and internal audit strategic performance
- Motivations and specific outcomes of investing in a quality process
- The impact of the quality process on internal audit performance
- The impact of the quality process on stakeholders’ decisions and on value creation
- Improvement targets for the future

The semi-structured interviews were conducted to elicit the perceptions of 20 CAEs from different regions, countries, and industries. Only three of these internal audit activities have not formally implemented any component of a QAIP. Six did not have an external assessment, so they are above the average practices revealed by the survey. Eight other interviews were conducted with four audit committee members or equivalent, one chief financial officer, and three external auditors.

DOCUMENTARY REVIEW

A documentary review was performed to understand how firms value and communicate about their QAIP. This review gives an indication of the perception of stakeholders’ concern with QAIPs. More precisely, this part of the research aims at:

- Determining the way listed firms communicate on internal audit quality and on its management in their annual reports
- Analyzing the way externally assessed internal audit departments value and communicate on their QAIP in their annual reports, on their Internet site, and in other medias
- Appreciating the emphasis placed on those topics in their reports, on their Internet site, and in other medias
Appendix D

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Academic Resources


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IIA–Birmingham Chapter
IIA–Calgary Chapter
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IIA–Miami Chapter
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IIA–Ocean State Chapter
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