



## **Proposal for External Quality Assessment of the Internal Audit function against world class best practice**

### **1. Summary**

**The following proposal outlines the suggested approach and methodology for conducting an external quality assessment of the Internal Audit Department, in accordance with the requirements and standards of the Institute of Internal Auditors. All aspects of the audit process will be evaluated against world wide best practice. The Business Risk Management Global Internal Audit database (currently with information from over 5000 Internal Audit functions) will be used as the yardstick.**

**The audit process is evaluated under 7 key sections – as detailed in part 4 below. Each section will be evaluated by means of interviews with key personnel and review of all documentation.**

**A comprehensive report will be prepared for the Head of Internal Audit**

**A detailed evaluation of each of the 7 sections will be included in the report. For each section reviewed the strengths, opportunities and recommendations will be highlighted.**

**An Executive summary report will also be included summarising the scope, approach, observations and recommendations. The summary will include an overall opinion of the function against worldwide best practice.**

## 2. The Institute of Internal Audit requirements

**An external quality assessment evaluates conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*, the internal audit and audit committee charters, the organisation's risk and control assessment, and the use of successful practices. An internal audit activity must obtain an external assessment every five years to be in conformance with the *Standards*.**

**The benefit of an organization undergoing a QA is that it allows the internal auditors to state that their activities are conducted "in accordance with the *International Standards for the Professional Practice of Internal Auditing*." It also builds stakeholder confidence by documenting management's commitment to quality and leading practices, and the internal auditors' mindset for professionalism.**

**Obtaining an external QA provides evidence to the board, management, and staff that the audit committee and the internal audit activity are concerned about the organization's internal controls, ethics, governance, and risk management processes.**

**The review will provide all the information necessary to satisfy both the Institute of Internal Auditors requirements and those of the Central Bank.**

## 3. Consultant for the assignment

***International Standards for the Professional Practice of Internal Auditing (Standards)*, state that performing and communicating the results of an external assessment require the exercise of professional judgment. Accordingly, an individual serving as an external assessor should:**

- **Be a competent, certified audit professional (e.g., CIA, CPA, CA, or CISA) who possesses current, in-depth knowledge of the Standards.**
- **Be well-versed in the best practices of the profession.**
- **Have at least three years of recent experience in the practice of internal auditing at a management level.**
- **Competence and experience, such as that gained from working previously as a team member on an external quality assessment**
- **CAE or comparable senior internal audit management experience.**

**The consultant in this assignment will be Phil Griffiths, Managing Director of Business Risk Management Ltd. Phil is a Chartered Accountant and Associate of the Institute of Internal Auditors with over 25 years experience in the field of internal audit and risk management as practitioner, professional adviser, facilitator and trainer. He has managed 3 global internal audit functions,**

trained internal audit functions all over the world. He has carried out many quality assurance exercises on behalf of clients across the world.

## 4. Scope and Approach

The scope covers all aspects of the Internal Audit service and is separated into 7 sections for the purpose of the review: -

- Strategy and development
- The Internal Audit Role
- Skills, Training, and Resources
- Strategic Audit Planning
- Managing the Audit Assignments
- Measuring Performance
- The Audit Report

### Review of documentation

#### Section 1 Strategy and Development

- Strategic direction – aims and objectives
- The Audit Charter
- The reporting line of the function
- Scope of the function
- The role and how it is evolving
- Professional standards compliance – all sections of the *International Standards for the Professional Practice of Internal Auditing* will be evaluated including integrity, objectivity, confidentiality and competence
- The balance between compliance, assurance and consulting

#### Documentation to have available

Audit Charter  
Functional terms of reference  
Mission statement  
Audit process documentation  
Ideas for change

#### Section 2 The Internal Audit Role

- Role regarding risk management
- The role relating to Corporate Governance
- The risk focus of the function (and the relative roles of other assurance providers)
- Coordination with audit customers
- The External audit relationship
- Expectations of the Board, Executive management and operational managers
- Role in Fraud prevention and investigation
- Audit committee relationships

- **Issues reviewed with the Audit Committee**
- **Audit Committee reports**
- **Feedback on performance**
- **Annual Assurance statement by IA**

#### **Documentation to have available**

**Audit committee reports (last 2-3)**  
**Comments by management, Director survey results**  
**Risk management reports**  
**Audit role explanation**  
**Feedback from Senior Management**  
**Feedback from Audit Committee**  
**External audit reports**  
**Regulators reports**

### **Section 3 Skills, Training, and Resources**

- **Audit personnel- numbers, skills, experience etc**
- **Job Descriptions**
- **Measures against our database e.g. number of auditors versus number of employees, staff turnover, qualifications etc**
- **Training plan**
- **Appraisals and performance management**
- **Breadth of Expertise**
- **Movements of people**
- **Resources and coverage**
- **Functional costs**
- **Recruitment and succession planning**

#### **Documentation to have available**

**Job descriptions**  
**Training plan**  
**Appraisals**  
**Budgets and costs**  
**Qualifications, skills assessments, training records**  
**Records of starters and leavers in last 12 months**

### **Section 4 Strategic Audit Planning**

- **Approach adopted – how are audit priorities determined**
- **How the level of assurance required is evaluated**
- **The Audit Universe**
- **The Sources of Audit work**
- **Extent of management requests**
- **Breadth of coverage**
- **Coverage of specialist areas (Treasury, IT security etc)**
- **Scope and frequency of assignments**
- **Non-audit work including consultancy**
- **The future direction of the function**
- **The challenges faced**

## **Documentation to have available**

**Audit plans – strategic**

**Planning system**

**Audit Universe**

**Requests**

**Challenges received**

**Partnered services (if any) and reports produced**

**Outline of recent investigations (if any)**

## **Section 5 Managing the Audit Assignments**

- **Audit methodology**
- **Fieldwork techniques**
- **Tactical Audit planning**
- **Audit programme development**
- **Audit assignment planning and control**
- **Audit file structures**
- **Audit Manual**
- **Time recording**
- **Pre-meetings with management**
- **Audit interview techniques**
- **Clearance meetings**
- **The use of technology - Audit automation, Computer assisted audit techniques etc**
- **Other Assurance provider support**

## **Documentation to have available**

**Audit manual**

**Assignment planning outline**

**Audit programmes (3 or 4 recent examples)**

**2 or 3 recent assignment files**

## **Section 6 Measuring Performance**

- **Performance measures used (comparison against 20 best practice criteria)**
- **Actual performance against the measures**
- **Perceptions of Internal Audit**
- **The approach taken to market the function (comparison against 20 best practice criteria)**
- **Marketing methods**
- **Use of Intranet**

## **Documentation to have available**

**Customer surveys**

**Key performance indicators or other measures used**

**Marketing documentation (if any)**

**Audit Brochure**

## **Section 7 The Audit Report**

- **Reports will be compared with 50 best practice criteria including: -**
- **Structure**
- **Format**
- **Impact of reports**
- **Use of graphics and charts**
- **Brevity**
- **Clarity**
- **The audit opinion and how expressed**
- **The executive summary**
- **The main report**
- **Action plans**
- **Timescales for finalisation**
- **The report review process**
- **Method of issue**
- **Use of jargon**
- **Percentage of recommendations implemented**
- **Use of positive language**
- **The review process (e.g. peer review)**
- **Management feedback**
- **Follow-up**

### **Documentation to have available**

**5 or 6 audit reports - as diverse topics as possible**  
**2 or 3 follow-up reports**

### **Interviews with key Personnel**

**The interviews will be held concurrently with the review of documentation**

**The personnel to be interviewed will be determined in conjunction with The Head of Internal Audit but as a minimum should be: -**

**Head of IA**

**Audit managers**

**2 or 3 senior auditors**

**3 or 4 Directors or Functional Heads**

**Audit Committee Chairman**

**Number of days for review of documentation and interviews**

**4 days**

### **Preparation of Report**

**The information will be collated and a comprehensive report prepared**

**After report has been issued and digested a conference meeting will be held to discuss the report and agree actions to be taken. The report will be updated to incorporate this information and a final report issued.**

**Number of days for this phase** **2 days**

**Total number of days for the assignment** **6 days**