Lessons Learned from External Quality Assessments 2019-2020

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Colofon

The Institute of
Internal Auditors
Netherlands

Table of contents

Introduction

Continuous evaluation and improvement of the service provision is a key feature of professional organisations. Such reflection and development strongly contribute to the confidence in and added value of the services. This also holds true for internal audit functions (IAFs). The professional standards of the Institute of Internal Auditors (IIA) therefore includes a mandatory programme for quality assurance and improvement. This includes an external, independent quality assessment, which must take place at least once every five years.

This report describes the results of the analysis of the external quality assessments performed in the Netherlands in 2019 and 2020. Such an analysis has been performed before in 2018. The analysis of 2018 was highly appreciated and prompted the release of a new, up-to-date version. It provides insight into the conclusions and recommended points for improvement that surface frequently.

The assessed organisations in 2019 and 2020 complied a large extend to the quality norms: 93% achieved the 'Generally Conforms' certificate. At the same time, for many organisations, improvements are possible and desired on various Standards, to guarantee quality continuously. This can support making the step from 'formal' quality(just conforming to the Standards) to 'material' quality in terms of customer focus and satisfaction, and offering added value to the organisation.

In addition to this report the results can also be viewed in a PowerBI dashboard on the website. This gives you the opportunity to analyse the detailed results according to your own wishes, at main and detailed level and according to size. This way you can better analyse which points of attention may be of value to you.

With this report IIA Netherlands intends to provide IAFs with points of reference for the next step in their quality improvement and providing added value to its stakeholders. The report could also an aid for IAFs in preparations for external quality reviews.

Conclusion

The reviewed organisations conform with the quality standards to a very large degree. While in 2018 three of the 35 had a final 'Does not conform' (DNC), none of the 44 organisations in 2019 and 2020 had this negative final score. And only three of the 44 achieved a 'Partly conforms' (PC), so a large majority of 41 (93%) received their certificate with a 'Generally conforms' (GC).

Overall Scores

3 (6.8%)

41 (93.2%)

● GC ● PC

At the same time, for many organisations, improvements are possible and advisable on various Standards, to assure quality continuously. This potentially making the step from 'formal' quality (just conforming to the Standards) to 'material' quality in terms of customer focus and satisfaction, and offering added value to the organisation.

The Standards with the lowest scores are:
• The quality assurance and improvement programme (QAIP) (1300), especially in the performance of internal assessments and the reporting and discussion of the findings;
• The nature of the work (2100), especially for Governance and Risk Management;
• The operational execution of audits, especially the careful fulfilment and recording of the planning and performing the engagements (2200 and 2300).

It's encouraging that overall, the scores are actually improving over the years. Generally, the attribute Standards, about positioning and structure of IAFs are (still) very much in order. The same Standards remain challenging, but are part of the core of the profession!
It is striking that compared to 2018 the score on Standard 2100, Nature of the work, has become considerably worse. 30% of the organisations scores a PC, while in 2018 this was only 6%.

It is good to note that also small IAFs can conform with the Standards. The scores on the Main Standards did not show significant differences based on size.
Neither were there any substantial differences between the three sectors which were distinguished.

The conclusions are explained further in this report. The following will be described:
• The framework of the external quality assessments in the Netherlands.
• The external quality assessments conducted in 2019 and 2020 and how the analysis is performed.
• The general results also compared with previous similar analyses. The report will also address the differences between sectors and between small and large(r) IAFs.
• The results on the various Standards; this describes both the aspects on which scores were relatively poor, as well as points of attention to improve them.
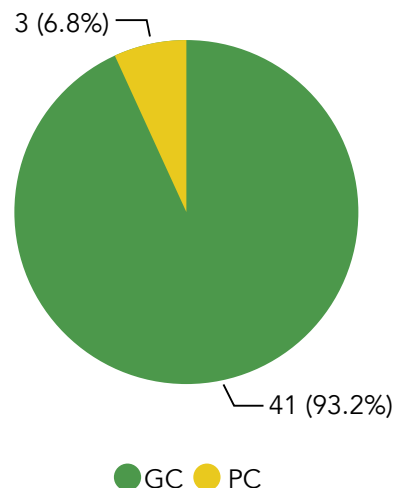
The framework

The professional standards of the IIA are laid down in the International Professional Practices Framework (IPPF). The IPPF has been developed and is maintained by The Institute of Internal Auditors (The IIA). It provides the internal auditors with a collection of guidances in the area of internal audits.

The IPPF contains the Mission of internal audit, mandatory guidance (consisting of the Core Principles, the Definition, the Code of Ethics and the Standards) and recommended guidance (Implementation Guidance and Supplemental Guidance). The Standards and implementation guidance make the mission, core principles and the definition more concrete.

Standard 1300 states that at least once every five years an external assessment must be carried out by a qualified, independent person or team from outside the organisation. In this, especially conformance with the Code of Ethics and the Standards is assessed.

In the Netherlands, external quality assessments are carried out by several review organisations. In 2019 and 2020, the reviews were carried out by eight different parties. The review organisations are also assessed in their turn. In this way, IIA Netherlands tries to ensure that regardless of the reviewing organisation and the reviewer, the same situation leads to the same expert opinion on compliance with the professional standards. Supervision of this is carried out by the Quality Assessments Supervisory Authority (Toezichtsorgaan Kwaliteitstoetsingen, TKT), as set out in the Regulations on Quality Assessments of Internal Audit Functions.

The TKT ensures the quality of the assessments, in advance by setting requirements on the expertise and experience of the reviewers, and afterwards by evaluating the reviews performed. In this context, TKT published the Document Scaling Guidelines (SG), with supplementary guidance for the opinion formation for each (sub)standard. The SG is primarily an aid 'by and for' the reviewing parties, but may also be used by an IAF to prepare for an external quality assessment.

In May 2019, IIA Nederland switched to a new rating for the final assessment. This is due to aligning with what is customary internationally. Instead of two (only DNC and GC), now three final scores are possible, i.e. also the PC. Both in the DNC and PC final scores the IAF must draw up and execute an improvement plan, within twelve respectively six months after the report date, after which a reassessment is held, in case of a PC only on the observed points for improvement.

In 2021, the TKT highlighted the importance of 'material' quality. After all, in the end the quality system and assessment are not just about complying to the rules ('formal' quality). It is about customer focus, satisfaction, and providing added value to the organization, the 'material' quality. This report addresses which (aspects of) the Standards can contribute to this.

Analysis and population

In 2019 and 2020 respectively 24 and 20 external assessments were performed. Especially in 2020 this is less than normal due to the Covid-19 pandemic, which has led to the postponement of several planned assessments. However, we think this did not change the overall picture of the results.

Reassessments are left outside the scope of this study, as they are the assessment of the improvements made instead of a first review of the overall conformance with the Standards.

The 44 IAFs reviewed represent a broad range of sizes and types. 18 organisations could be designated as a small IAF, with four or less FTEs.

The organisations operate in many different industries. For the analyses, a three-way split was made amongst the profit-financial sector (FS) (14), profit-non-financial sector (PRIV) (21) and the non-profit sector (NP) (9).

Size IAF's

18 (40.9%)

26 (59.1%)

Large   Small

Sector

21 (47.7%)

9 (20.5%)

14 (31.8%)

PRIV   FS   NP
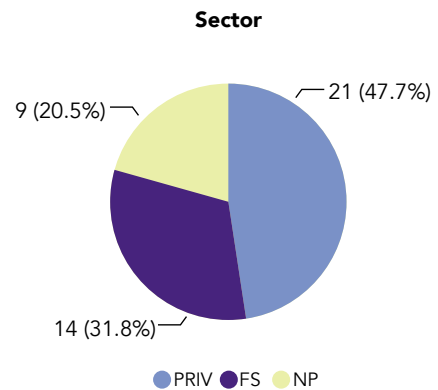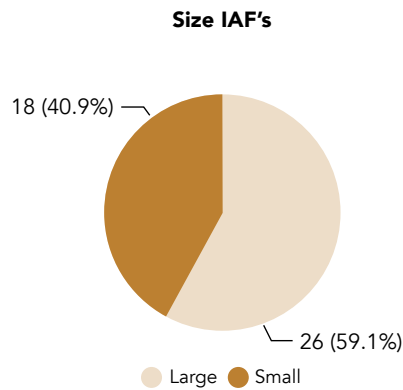
General results

As stated earlier, with all organisations overall assessed positively, there was a very high degree of conformance with the IIA framework of standards.

Code of Ethics

Conformity with the Code of Ethics was almost 100%.; only one IAF didn't conform with this.

Standards

Also, on the Main Standards (level XX00) the key conformance criteria were met to a high degree. This applies to the Performance Standards and even more so to the Attribute Standards.[1]

Scores per Main Standard

Standard	GC	PC	DNC	NA	NB	Total
Definition	36				8	44
IIA Code of Ethics	40	1			3	44
1000 Purpose, authority and responsibility	41	3				44
1100 Independence and objectivity	43	1				44
1200 Proficiency and due professional care	44					44
1300 Quality assurance and improvement program	41	2	1			44
2000 Managing the internal audit activity	42	2				44
2100 Nature of work	31	13				44
2200 Engagement planning	34	10				44
2300 Performing the engagement	39	5				44
2400 Communicating results	42	2				44
2500 Monitoring progess	41	3				44
2600 Communicating the acceptance of risks	37	1		6		44

● GC ● PC ● DNC ● NA ● NB

The Standards with the lowest scores were:
- The nature of the work (2100);
- The Quality Assurance and Improvement Programme (QAIP) (1300);
- The operational execution of audits, especially the planning and performing the engagements (2200 and 2300). In these least scoring sections, several underlying Standards showed relatively poor scores.

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1   If the relevant Standard did not apply, a 'NA = not applicable' is given. NB is given when the standard is not (visible) assessed.

The table below shows the Standards with the most 'partially conforms' and 'does not conform'.

Standards with the most PC and DNC (5 or more)

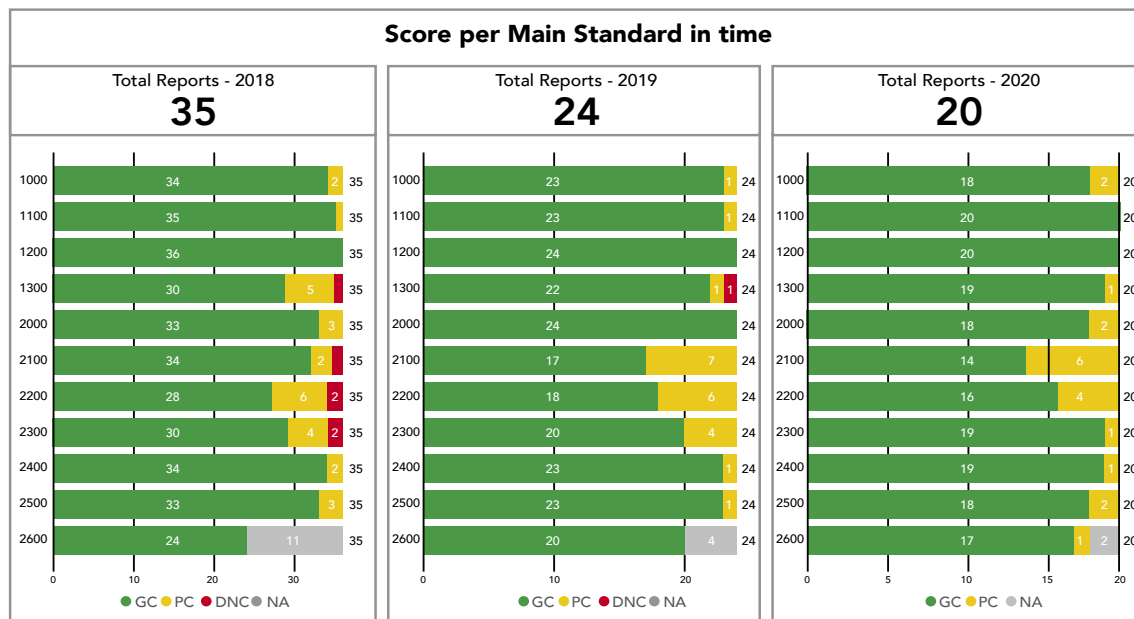| Standard	Value
2120 Risk Management	16
2320 Analysis and evaluation	16
2100 Nature of work	13
2110 Governance	11
2040 Policies and procedures	10
2200 Engagement planning	10
2330 Documenting information	9
2340 Engagement supervision	8
2210 Engagement objectives	7
2220 Engagement scope	7
2230 Engagement resource allocation	6
2240 Engagement work program	6
1311 Internal assessments	5
1320 Reporting on the QAIP	5
2010 Planning	5
2300 Performing the engagement	5
2450 Overall opinions	5

● PC ● DNC

Development over time

An interesting question is whether there is improvement over time. The chart below, which shows a comparison of the last three years, demonstrates that this is indeed the case. In 2018 it could be concluded there was an overall improvement with the similar analysis for 2011/2013. It is very encouraging to see that the profession is learning and professionalising. However, there is one exception: on Standard 2100 Nature of work, the score has clearly deteriorated.

Also, it is the same Standards that continue to offer the biggest challenge. This applies to 1300 QAIP and the operational execution of audits, regarding Planning (2200) and Performing the engagements (2300).

Score per Main Standard in time

	Total Reports - 2018 **35**	Total Reports - 2019 **24**	Total Reports - 2020 **20**
1000	34 / 2 / 35	23 / 1 / 24	18 / 2 / 20
1100	35 / 35	23 / 1 / 24	20 / 20
1200	36 / 35	24 / 24	20 / 20
1300	30 / 5 / 35	22 / 1 1 / 24	19 / 1 / 20
2000	33 / 3 / 35	24 / 24	18 / 2 / 20
2100	34 / 2 / 35	17 / 7 / 24	14 / 6 / 20
2200	28 / 6 2 / 35	18 / 6 / 24	16 / 4 / 20
2300	30 / 4 2 / 35	20 / 4 / 24	19 / 1 / 20
2400	34 / 2 / 35	23 / 1 / 24	19 / 1 / 20
2500	33 / 3 / 35	23 / 1 / 24	18 / 2 / 20
2600	24 / 11 / 35	20 / 4 / 24	17 / 1 2 / 20

● GC ● PC ● DNC ● NA

Differences by size

A question often asked is to what extent can small IAFs (defined as functions with a staff of 4 FTEs or less) conform with the Standards. It is known that conformance with the Standards is challenging for small IAFs. To support small IAFs in the implementation, a Practice Guide Assisting Small Internal Audit Activities in implementing the Standards has been compiled by IIA Global.
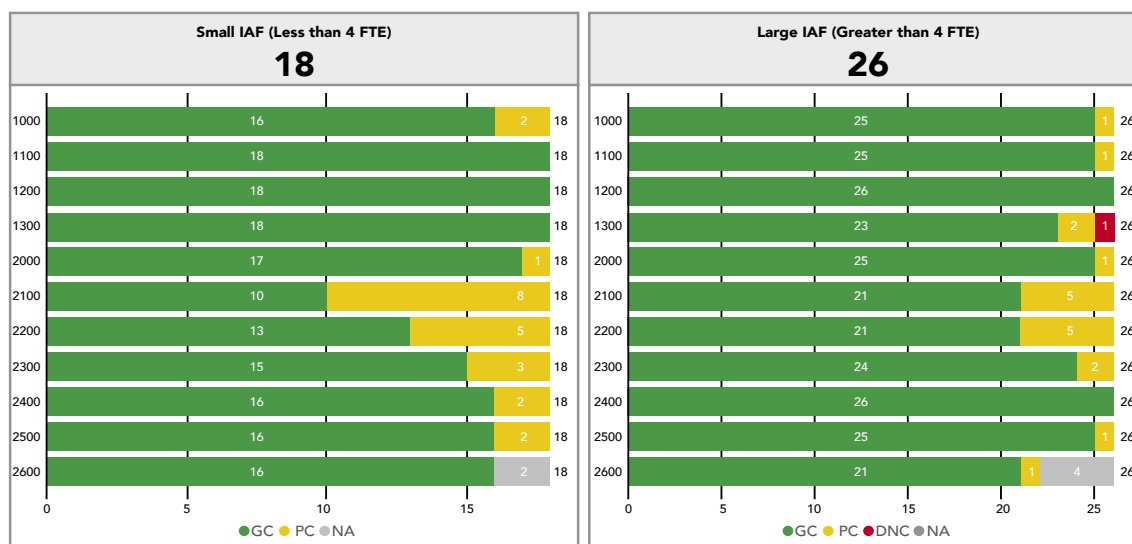
The results of assessments in 2019 and 2020 confirm the results from 2018: there are no significant differences based on size. Of the three IAFs which received an overall PC, one is a small IAF. It may be concluded that also the smaller IAFs are able to conform with the Standards. There was even a single person IAF demonstrating conformance with the IPPF due to additional measures.

The Practice Guide states for the various Standards to what extent they may be challenging for small IAFs. In the table below this is compared to the actual scores.

Standard	Description	Challenge	Realisation
1000	Purpose, Authority and Responsibility	L	16 / 2
1100	Independence and Objectivity	H	18
1200	Proficiency and Due Profe	M	18
1300	Quality Assurance and Improvement Programmessional Care	H	18
2000	Managing the Internal Audit Function	H	17 / 1
2100	Nature of Work	M	10 / 8
2200	Planning the Engagement	H	13 / 5
2300	Performing the Engagement	H	15 / 3
2400	Communicating the Results	M	16 / 2
2500	Monitoring Progress	M	16 / 2
2600	Communicating the Acceptance of Risks	M	16 / 2

The challenge appears to be less marked in practice than the Practice Guide anticipates. Although the practice on the Performance Standards generally matches expectations, given that most of the non-conformance is present in the 'high-challenge' areas, the small IAFs generally have succeeded in taking the requisite compensating measures. Notably, in three areas that the Practice Guide noted three areas as the main challenges - independence (1100), (retaining) qualified staff (1200) and the QAIP (1300), and all small IAFs reviewed were determined to conform with the requirements.

Differences by sector

As stated earlier, the analysis distinguishes three sectors. Among these, the 'non-profit' sector (three big and six small IAFs) is highly diverse in nature: It contains public organisations, care providers, a housing association and university.
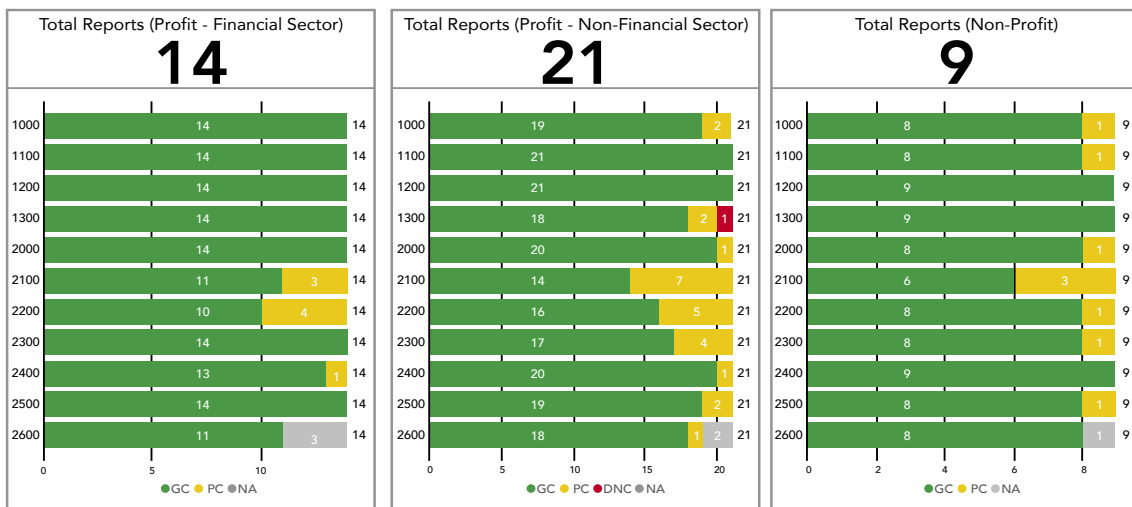
In fact, the differences between the sectors seem not to be substantial. The relatively small numbers per sector stand in the way of 'hard' conclusions.
We note that this equality is especially true at the level of the main standards; although, this may be different for specific sub-standards. We would like to invite you to view this for your own situation in the PowerBI dashboard.

The specific results

Below, we take a closer look at the results for the Code of Ethics and each of the Main Standards. It will be explained what the Code of Ethics and the Standards stand for and what conclusions in terms of points of attention and improvements we can draw from the analysis of the conducted quality assessments.

Code of Ethics

The Code of Ethics is based on four principles: Integrity, Objectivity, Confidentiality and Competency. These have been explained in the Code of Ethics through several rules of conduct and made more concrete in the Standards and the associated Implementation Guidances. All IAFs assessed conformed fully with the Code of Ethics, except one, that only partially conformed.

1000: Purpose, authority and responsibility

This Standard details the requirements set on the internal audit charter. The charter is the foremost reflection of the function of the IAF and gives direction to everything an IAF does and does not do. It is the agreement between the IAF and its clients, and a guideline and signpost for its employees. The charter can also be used in a broader context, as a marketing tool or as part of the IAF's relationship management and can provide clarity and yield information to customers and other stakeholders. In short, the charter is an essential part of the IAF quality system. In fact, it is important to note that a 'does not conform' on Standard 1000 leads in principle to a 'does not conform' on the entire external assessments.

In general, the charters conformed (only three IAFs partially conformed with Standard 1000 and two IAFs partially conformed with Standard 1010), but 19 IAFs were still given recommendations to improve the charter. These recommendations mainly concerned the actuality of the charter and missing aspects that should be included. The assessments especially highlighted especially that the following elements as not always being sufficiently included:
- The purpose and services that are provided and not provided;
- The relationship and reporting lines to the Board and the AC, so that it is clear who takes which decisions in relation to the IAF and its Chief Audit Executive (CAE);
- The cooperation and alignment of the IAF with the second line functions and external auditor;
- The acknowledgement of the Mandatory Guidance (Core Principles, Definition, Code of Ethics and Standards), as required explicitly in Standard 1010.

The completeness of the charter can be checked on the basis of Implementation Guidance 1000, which lists the relevant aspects, and the Model Charter 2017, which provides further details.

Next to completeness, being up to date is also essential. The charter must be in line with the actual role and position of the IAF. If not, the charter loses its value as the main policy document of the IAF providing direction to the entire IAF and through which the agreements with the client are crafted.

In addition, the charter must periodically be evaluated with senior management and the Board; an important moment for the material quality of the IAF. No concrete minimum frequency is mentioned; this must be determined in consultation with the Board and the AC. It is good practice to schedule an annual check in order to secure that it is up to date, and to do this simultaneously with the prescribed annual confirmation of the independence of the IAF to the Board (1110).

It may be considered doing this together with a more extensive evaluation of the situation (the periodic, preferably annual, internal assessment (1311)) at the start of the annual plan. This ensures that the required activities to develop the IAF are included in the annual plan and that at the start of the year all basic conditions are in order.

1100: Independence and Objectivity

In fact, for all IAFs the positioning (1100) and interaction with the Board and the AC (1111) was such that the independence is guaranteed. 12 organisations were given recommendations; these concerned not so much the positioning, but mainly the required annual formal confirmation of independence (1110) and the explanation of what is meant by (threats to) objectivity (1130), in order to make everyone aware of the importance of objectivity.

A point of attention here is the question as to whether the CAE also has duties other than internal auditing. In practice, these are likely to be secondary activities, often in the area of risk management or compliance. For this, a new Standard (1112) was added in 2017. This offers the opportunity to increase the added value (material quality) of the IAF, but with a number of safeguards to limit the impairment of independence or objectivity. Both the Implementation Guidance and the memo from the Committee Professional Practices of the IIA describe the prerequisites or compensating measures under which this is allowed.

1200: Proficiency and Due Professional Care

This concerns the quality of the audit employees: do they have sufficient knowledge and skills, are these applied with due care and consistently maintained? This was the case in all organisations reviewed.

Even so, there were still quite some organisations receiving recommendations for the proficiency of the staff (1210), especially regarding knowledge of the business, data-analytics and IT. Remarkably, no recommendations regarding the knowledge of soft controls and skills to audit them are given, as was clearly the case in 2018.
This Standard must be seen in conjunction with Standard 2030 Resource Management, which deals with managing and ensuring that the staffing is in order, both quantitatively and qualitatively, to achieve the approved plan. Standard 1210 mostly deals with the (qualitative) results of that.

Another aspect on which several recommendations have been made is the use of technology to improve the quality of the audit (due professional care, 1220). Data analytics, process mining and RPA are examples of this with which more and more experience is being gained in the audit world.

1300: Quality Assurance and Improvement Program

Standard 1300 was a key point in the assessments performed. After all, the system of quality assurance and improvement (QAIP) is decisive for the learning and improvement ability of an IAF. This is even more important in view of the speed and complexity of the developments that organisations and therefore also IAFs are facing.

Despite this, it is one of the Standards which needs specific attention. The overall scores compared to 2018 greatly improved: in 2018 six out of 35 did not have GC at main standard level; now it is only three out of 44. However, the number of organisations receiving recommendations increased from ten to 21. Many organisations are finding it hard to properly carry out the number of activities involved in a fully-fledged QAIP.
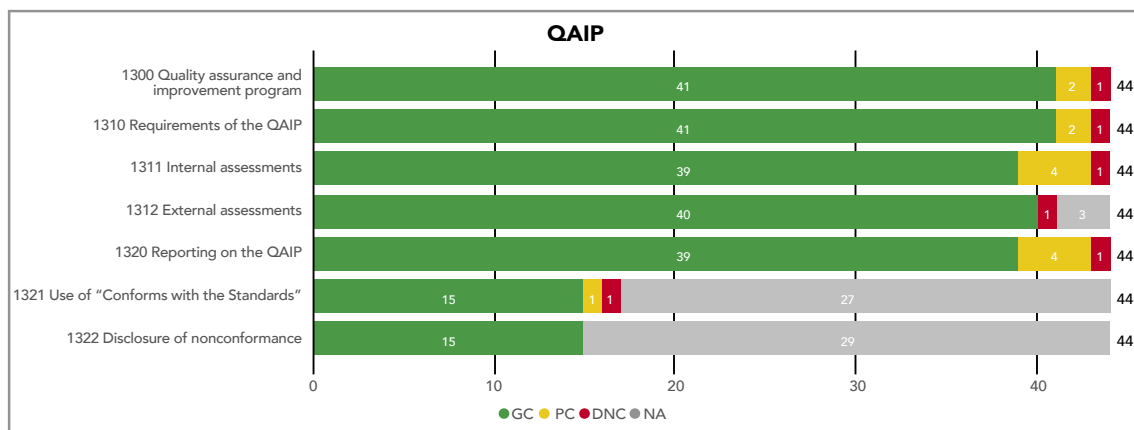
As the chart above depicts, the most important areas of improvement are Standards 1311 and 1320 (as it was in 2018):

- Standard 1311 – Internal Assessments
  Five organisations conformed partially or did not conform, while points of improvement were flagged up for nine. The internal assessments comprise both ongoing monitoring and periodic assessments, by means of self-assessment or an assessment by other experts within the organisation. It is noted that for the latter, use can also be made of peer reviews between multiple IAFs, as is done in practice by many small IAFs.

  The recommendations for the nine organisations mainly concerned:
  - Do both ongoing monitoring (OM) (including reviews) and periodic evaluation (PE);
  - Regarding OM: a broad evaluation after the audit (time, costs, but also quality);
  - Regarding PE: ensure it includes both the evaluation of internal processes and audits performed; evaluate all (sub) standards (not only the performance standards on audits performed), analyse performed file reviews and self-evaluations and make use of customer evaluations, an important means of measuring and discussing material quality.

It is noted that there is no mandatory (minimum) frequency with respect to the periodic self-assessment. Best practice is to do this annually, as stated, for example in the context of drawing up the department's annual plan. The Internal Audit Ambition Model (IA AM) provides a very useful means for this, not least because the automated tool offers both benchmarking options (to compare one's own IAF with, for example, others in the sector, or of a similar size) and reporting options (including a spider's web) which can also be used for discussion purposes, both internally the IAF and with different stakeholders.

- Standard 1320 - Reporting on the Quality Assurance and Improvement Program
  Five organisations did not conform fully, and nine organisations were given recommendations, mainly about reporting all aspects of the QAIP to and discuss them with all stakeholders.
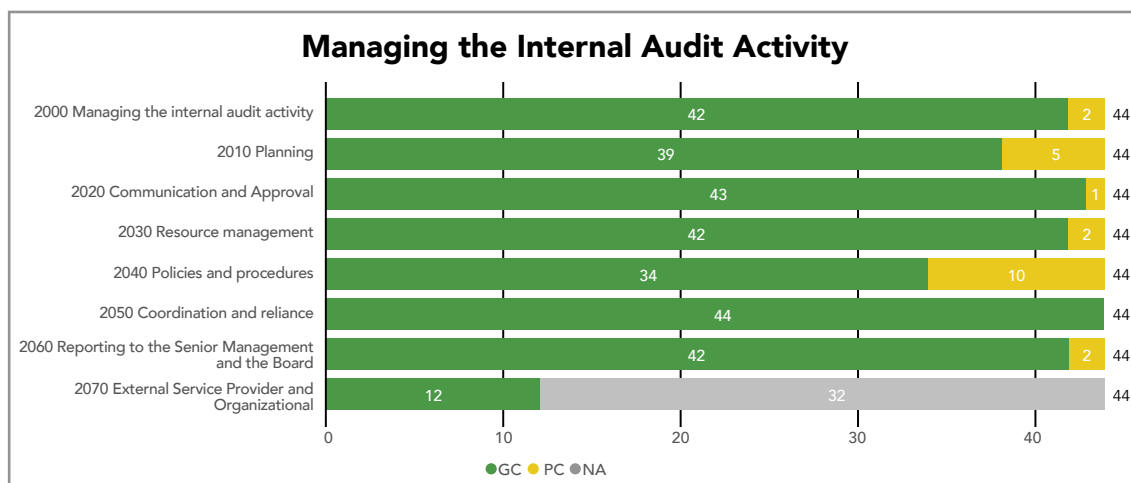 As stated earlier, the reporting and discussion of the assessment may be combined with the discussion of other matters, such as independence, the charter and/or the annual plan, which will in that case also include the actions for improvement yielded by the assessments. It are precisely these discussions that are important for the material quality of the IAF.

Standard 1321 - Use of the phrase 'Conforms with the International Standards for the Professional Practice of Internal Auditing' indicates that an IAF may only report that it conforms with the IPPF if the results from the QAIP, i.e. including the independent external quality review, support this statement. Such statements are rarely used in the Netherlands. As a result, this was 'not applicable' for almost two-thirds of the reviewed organisations. Conversely, unjustified reporting of conformance did occur once.

The above concerns the Attribute Standards. These refer to attributes, especially positioning and structure, of the IAF. Below, we will describe the Performance Standards, which concern the IAF's processes or the performance of the activities

2000: IAF Management

This Standard is one of the most important sections of the IPPF. It concerns the management of the department and the totality of the activities, i.e. the guarantees for an adequate annual plan and its realisation.

Managing the Internal Audit Activity

	GC	PC	NA	Total
2000 Managing the internal audit activity	42	2		44
2010 Planning	39	5		44
2020 Communication and Approval	43	1		44
2030 Resource management	42	2		44
2040 Policies and procedures	34	10		44
2050 Coordination and reliance	44			44
2060 Reporting to the Senior Management and the Board	42	2		44
2070 External Service Provider and Organizational	12		32	44

●GC ● PC ●NA

Generally, the management of the department was in order at all the reviewed organisations; two organisations only partially conformed with Standard 2000. However, on virtually all underlying Standards several 'partially conforms' were issued and even more often points for improvements were flagged up. Compared to 2018 there are two striking differences: 2030 Resource management improved in overall score (from 80% to 95% GC, but still having recommendations for 12 IAFs). On the other hand, 2040 Policies and procedures deteriorated: from 90% to 77% GC.

The main points of attention for the Sub standards with most recommendations are listed below: 2010, 2030 and 2040. After that, because of its importance, 2050 is briefly discussed.

Standard 2010 – Planning

Planning concerns preparing the audit plan (annual plan) and the underlying risk analysis. Points of attention (for 15 organisations) were especially:

- The set-up of the audit universe, which must be concrete and must match the structure and processes of the organisation. It is not necessary to actually audit the entire 'universe' (in one or more years); after all, the purpose is to address the main risks. A suggestion to achieve this is to include the relationship of the object with the strategic goals of the organisation in the analysis, so that it is explicit what objects, and by extension which audits, concern which strategic goals and themes. This is an element of customer focus of the IAF, as this is what management is focusing on.

- The risk analysis that should include all important risks but should not be too complicated either. In 2018, it was found at many IAFs that explicit evaluation of the fraud risks was insufficient. This is hardly the case now, probably partly due to the NBA's mandatory training in this regard in 2019.

Standard 2030 – Resource Management

12 organisations were given recommendations about staff composition. As stated, this Standard must be considered together with Standard 1200. The required supplementation of knowledge and skills (especially on data analytics and IT) to adequately identify and investigate all risks are already addressed there.

A specific point of attention for managing staffing is the consideration deploying capacity from outside IAF to cover gaps in the staff or strengthen the IAF and its role in the organisation. Traineeships, rotations and co-sourcing are examples of what already is being done often and may rise further in the future, based on the need for specific in-depth knowledge (which in view of the dynamics is developing quickly, and therefore is hard to keep abreast of for IAFs). It also meets the wish to consider the IAF as a breeding ground or apprenticeship, or to raise mutual understanding and collaboration by means of the exchange. The IIA Netherlands report Non-traditional auditors: Better Practices describes some good experiences in this as well as success factors and pitfalls, to be sure, the non-traditional auditor will contribute their valuable inputs to IAF without compromising the quality and Standards.

Standard 2040 – Policies and Procedures

Ten organisations had a PC on this Standard. That was mainly due to shortcomings in the completeness of its Manual.

In practice there are frequently questions about what the manual should include or what kinds of policies and procedures must have been adopted and in what form. The

Implementation Guidance states explicitly that the form and contents may differ dependent on the size and structure of the IAF and the complexity of the work. The essence is that the internal auditors are given sufficient guidance, that it is clear what actions need to be taken in various situations that are decisive for the quality and added value of the IAF. As a result, this Standard not only deals with form and contents, but also - and perhaps especially - with communication, i.e. discussions.

More specifically should be noted:
- The form of the manual: it does not have to be one comprehensive manual. Policies and procedures may also exist in separate documents or be integrated in the audit management software;
- The contents of the manual: not all Standards need to be translated into policies and procedures. For example, Standard 1130 – Impairment to Independence or Objectivity only states that breaches must be communicated to the relevant parties involved; so, this concerns actual actions. The IAF must ensure, however, that it acts adequately in such a situation; discussing this and laying it down in a procedure (or vice versa) might be a good aid for this.

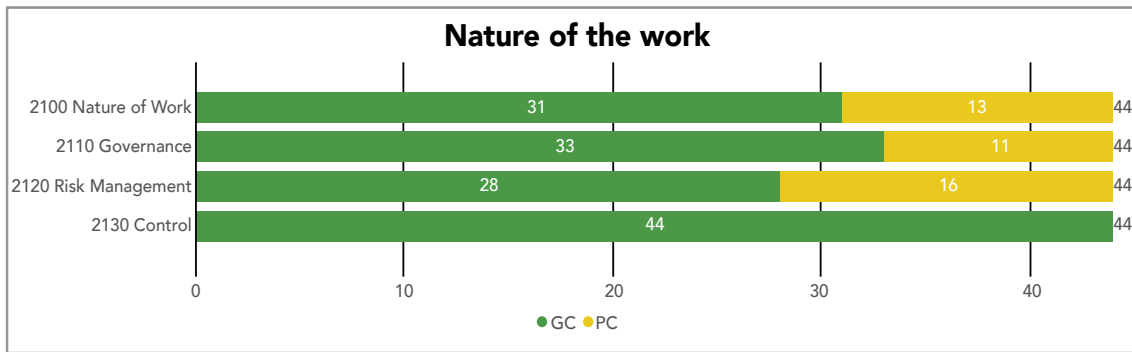### *Standard 2050 – Coordination and Reliance*
This Standard concerns coordination with other (internal and external) auditors and advisers. This coordination and alignment has become even more important in the new Three Lines model which substitutes the well know 'Three Lines of Defense'-model. It is explicitly stated that the three lines are not silos, but all working towards the goals of the organisation. Internal Audit is and remains the independent third line, with a coordinating role in this. This coordination concerns both ensuring good covering of all relevant risks and ensuring that this is done in the most efficient way possible (preventing doubling of work). By doing so the IAF can be of large value to the organisation.

Although every IAF received a GC on this, seven organisations were given recommendations to improve or intensify their collaboration with second line functions and/or the external auditor. It may be considered per aspect to define the three lines or 'tower of control more concrete and make explicit who (which department or officer) takes care of which line and how to guarantee that the next line can trust on the 'previous' line's work to prevent duplication of work.

2100: Nature of Work

This Standard concerns the question as to whether the scope of the IAF is sufficient and the major issues of the organisations in the area of governance, risk management and control are sufficiently covered by the IAF. The IAF should evaluate and contribute to the improvement of them.
In the study of 2018 in general, this was the case. However, there is a substantial deterioration in 2019 and 2020. This applies not so much to the focus on Control (2130), but especially to Governance (2110) and Risk Management (2120). On those two, no less than 25% respectively 36% scored a PC.

Nature of the work

2100 Nature of Work	31	13	44
2110 Governance	33	11	44
2120 Risk Management	28	16	44
2130 Control	44		44

● GC ● PC

Main point for improvement is reporting on the effectiveness of both Governance and RM (in addition to the design and implementation). Additionally, in order to really contribute to improvements (and so to ensure 'material' quality), it is important to draw overall conclusions from various individual audits. Usually, a single audit of Governance is not attempted, so the assessment would be based on information obtained from different audit assignments over time. Regarding Risk management it is important assessments are not limited to incorporate this as an audit objective in audits (the mitigation of a specific risk); the IAF also should report on the effectiveness of risk management processes itself. This could be done by a dedicated audit.

Within these processes, two specific substantive points emerged to pay more attention to:
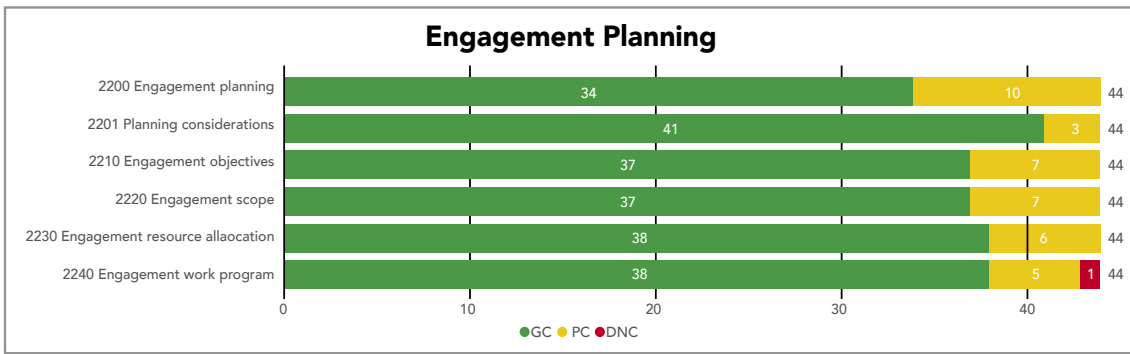• culture and behaviour;
• the functioning of second line functions.

2200: Planning and 2300 Performing the Engagement

Like in 2018 and in 2011-2013 conformance with these Standards regarding the operational performance of audits is still a big challenge: ten and five organisations respectively only partly conform with this Main Standards. In addition, a big majority of the organisations reviewed (32 respectively 37 out of 44!) were given points of improvement on these Standards. These points of improvement concerned both reflecting on the set-up of the audit and recording this reflection and the performance. In fact, the key aspect is to work methodically and carefully, making conscious choices and recording them.
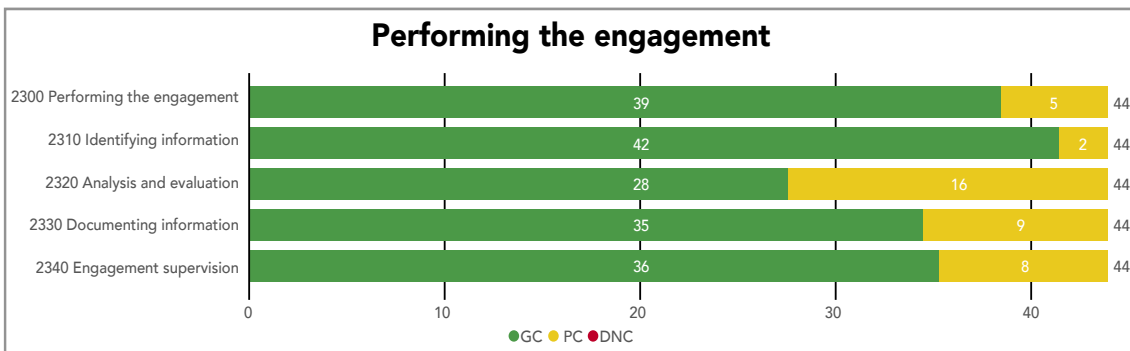
As the scores remain low over the years the challenges in these Standards appear to be difficult to solve. It is often said that this takes (too much) time and that the focus is often on 'productive work' rather than recording. At the same time, these Standards are emphatically an elaboration of the 'competency' principle, and also form an important basis for 'objectivity'.

This issue may also be regarded as a risk analysis: if planning and performance are not carried out with sufficient care, the auditor is exposed to risks. For example, the risk that the audit is not property matched to the needs of the client, or if incorrect or insufficiently substantiated conclusions are drawn. It may also be that work processes are inefficient as only at a late stage of the fieldwork it turns out that the scope should have been different or that in the reporting phase there is significant debate about how to interpret the findings of the fieldwork. All aspects of the material quality. It is important to find the right balance, supported by discussion amongst the team and tools to ease this process.

Engagement Planning

Standard	GC	PC	DNC	Total
2200 Engagement planning	34	10		44
2201 Planning considerations	41	3		44
2210 Engagement objectives	37	7		44
2220 Engagement scope	37	7		44
2230 Engagement resource allaocation	38	6		44
2240 Engagement work program	38	5	1	44

Regarding the preparation of the audits (Standard 2200 – Engagement Planning), the points of attention (and scores) are distributed over the Substandards more or less equally:

- Standard 2201 – Planning Considerations: the completeness of the risk analysis (incl. fraud risks and organisation goals) and the use of data analysis;
- Standard 2210/20 Engagement objectives and scope: clear definition of the goals and scope of the research; recording and approval of scope changes
- Standard 2230 – Engagement Resource Allocation: the documentation of the considerations;
- Standard 2240 – Engagement Work Program: the discussion and explicit approval of the standards framework and work program, so that there are no misunderstandings, and all concerned agree that this program will achieve the objectives of the audit.

Performing the engagement

Standard	GC	PC	DNC	Total
2300 Performing the engagement	39	5		44
2310 Identifying information	42	2		44
2320 Analysis and evaluation	28	16		44
2330 Documenting information	35	9		44
2340 Engagement supervision	36	8		44

Regarding Standard 2300 – Performing the Engagement, in 2018 the improvements mainly concerned Documentation information (2330) and Engagement supervision (2340). Now these still need attention, but 2320 Analysis and evaluation even scores worse. The following points need special attention:

- General: the use automated tools for data analysis and audit management;
- Standard 2320 - Analysis and evaluation: the presence of the audit trail, using cross references and the substantiation/explanation of (of both negative and positive) conclusions;
- Standard 2330 – Documenting Information: completeness of the info (files) and determining a policy for storage and retention of files;
- Standard 2340 – Engagement Supervision: a key element in guaranteeing the quality of the audits (and the learning capacity) is supervision. Because this is so important, the Standard states explicitly that appropriate evidence of supervision is documented and retained. The recording of the supervisory reviews was especially a point of attention for several organisations. Incidentally, the supervision does not necessarily need to be done by the CAE him or herself, and here, too, there is a degree of risk analysis: The level of the supervision required is dependent on the proficiency and experience of the auditors and the complexity of the engagement.

2400: Communicating the Results

The quality of communication (reporting and discussion) is essential for the realisation of the intended added value of the IAF. This appears to be an important point of attention in spite of the fact that only two organisations scored PC: a huge number (28) of organisations were given recommendations to improve the quality of the reporting. These concern all aspects of the 'reporting in writing', both the structure of the report, the clarity of the text and the presentation of the results. It appears that a large difference exist between formal and material quality.

In the Netherlands limited use is made of the statement that the audit was conducted in conformance with the international standards for the professional practice of Internal Auditing (Standard 2430). This is comparable to the statement that the IAF as a whole act in conformance with the Standards (Standard 1321). Over half of the organisations reviewed (27) did not use such a statement, so that this constituted a 'not applicable'. Conversely, unjustified reporting of conformance did occur once, as this statement was not supported by external quality assessment (by an IAF who existed already for more than five years).

2500: Monitoring Progress

The IAF must monitor the follow-up of the action points flagged up by the audits. Standard 2500 states that the CAE must set up and maintain a system for this. In the practice of the organisations reviewed, the IAFs generally do this adequately. There were only three PCs. Recommendations given concerned the use of a concrete timelines and being (pro)active in the follow up.

It should be noted the Standard does not mean that the IAF itself must handle the entire monitoring in all respects. In this context it may collaborate for example with the second line of defence Control function. The essence is that the IAF can determine that the critical points have actually been adequately resolved.

One consideration is offering management to expand the monitoring with the findings of other assurance providers and advice engagements, so all improvement activities can be tracked together. Standard 2500.C1 states that the IAF must also monitor the plans resulting from the findings from advice engagements, to the extent agreed with the client.

2600: Communicating the Acceptance of Risks

If the CAE believes that the management has accepted a level of risk that might be unacceptable for the organisation, he must discuss this with the senior management, and if it does not take it up, with the Board. This did not occur in many of the organisations reviewed. Almost no problems were identified in the assessments in this respect.

Epilogue

With the foregoing analysis and in particular the points of attention mentioned, we hope to have provided handles to further improve conformance with the Standards. The report was created not just for its own sake, but as a means to optimise the material quality and as a result the added value of the IAF for the organisation. After all, the professional standards together make up the core requirements for good, effective and result-oriented professional practice of internal auditing, both at the individual and organisational levels. Conformance promotes professionalism and continuous improvement. And that helps us as internal audit to increase our value for all clients and stakeholders.