Primary Related Standard

1312 – External Assessments

External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The chief audit executive must discuss with the board:

- The need for more frequent external assessments.
- The qualifications and independence of the external reviewer or review team, including potential conflict of interest.

Interpretation:

A qualified reviewer or review team consists of individuals who are competent in the professional practice of internal auditing and the external assessment process. The evaluation of the competency of the reviewer and review team is a judgment that considers the professional internal audit experience and professional credentials of the individuals selected to perform the review. The evaluation of qualifications also considers the size and complexity of the organizations that the reviewers have been associated with in relation to the organization for which the internal audit activity is being assessed, as well as the need for particular sector, industry, or technical knowledge.

An independent reviewer or review team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.

1. External assessments cover the entire spectrum of audit and consulting work performed by the internal audit activity and should not be limited to assessing its quality assurance and improvement program. 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. This can be accomplished through either a full external assessment by a qualified, independent external reviewer or review team or a comprehensive internal self-assessment with independent validation by a qualified, independent external reviewer or review team. Nonetheless, the chief audit executive (CAE) is to ensure the scope clearly states the expected deliverables of the external assessment in each case.

2. External assessments of an internal audit activity contain an expressed opinion as to the entire spectrum of assurance and consulting work performed (or that should have been performed based on the internal audit charter) by the internal audit activity, including its conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards and, as appropriate, includes recommendations for improvement. Apart from conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, the scope of the assessment is adjusted at the discretion of the CAE, senior management, or the board. These assessments can have considerable value to the CAE and other members of the internal audit activity, especially when benchmarking and best practices are shared.
3. On completion of the review, a formal communication is to be given to senior management and the board.

4. There are two approaches to external assessments. The first approach is a full external assessment conducted by a qualified, independent external reviewer or review team. This approach involves an outside team of competent professionals under the leadership of an experienced and professional project manager. The second approach involves the use of a qualified, independent external reviewer or review team to conduct an independent validation of the internal self-assessment and a report completed by the internal audit activity. Independent external reviewers should be well versed in leading internal audit practices.

5. Individuals who perform the external assessment are free from any obligation to, or interest in, the organization whose internal audit activity is the subject of the external assessment or the personnel of such organization. Particular matters relating to independence, which are to be considered by the CAE in consultation with the board, in selecting a qualified, independent external reviewer or review team, include:

- Any real or apparent conflict of interest of firms that provide:
  - The external audit of financial statements.
  - Significant consulting services in the areas of governance, risk management, financial reporting, internal control, and other related areas.
  - Assistance to the internal audit activity. The significance and amount of work performed by the professional service provider is to be considered in the deliberation.

- Any real or apparent conflict of interest of former employees of the organization who would perform the assessment. Consideration should be given to the length of time the individual has been independent of the organization.

- Individuals who perform the assessment are independent of the organization whose internal audit activity is the subject of the assessment and do not have any real or apparent conflict of interest. “Independent of the organization” means not a part of, or under the control of, the organization to which the internal audit activity belongs. In the selection of a qualified, independent external reviewer or review team, consideration is to be given to any real or apparent conflict of interest the reviewer may have due to present or past relationships with the organization or its internal audit activity, including the reviewer’s participation in internal quality assessments.

- Individuals in another department of the subject organization or in a related organization, although organizationally separate from the internal audit activity, are not considered independent for purposes of conducting an external assessment. A “related organization” may be a parent organization; an affiliate in the same group of entities; or an entity with regular oversight, supervision, or quality assurance responsibilities with respect to the subject organization.

- Real or apparent conflict involving peer review arrangements. Peer review arrangements between three or more organizations (e.g., within an industry or other affinity group, regional association, or other group of organizations — except as precluded by the “related organization” definition in the previous point) may be structured in a manner that alleviates independence concerns, but care is taken to ensure that the issue of independence does not arise. Peer reviews between two organizations would not pass the independence test.
To overcome concerns of the appearance or reality of impairment of independence in instances such as those discussed in this section, one or more independent individuals could be part of the external assessment team to independently validate the work of that external assessment team.

6. Integrity requires reviewer(s) to be honest and candid within the constraints of confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. Objectivity is a state of mind and a quality that lends value to a reviewer(s) services. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflict of interest.

7. Performing and communicating the results of an external assessment require the exercise of professional judgment. Accordingly, an individual serving as an external reviewer should:

- Be a competent, certified internal audit professional 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 or related consulting at a management level.

Leaders of independent review teams and external reviewers who independently validate the results of the self-assessment should have an additional level of competence and experience gained from working previously as a team member on an external quality assessment, successful completion of The IIA’s quality assessment training course or similar training, and CAE or comparable senior internal audit management experience.

8. The reviewer(s) should possess relevant technical expertise and industry experience. Individuals with expertise in other specialized areas may assist the team. For example, specialists in enterprise risk management, IT auditing, statistical sampling, operations monitoring systems, or control self-assessment may participate in certain segments of the assessment.

9. The CAE involves senior management and the board in determining the approach and selection of an external quality assessment provider.

10. The external assessment consists of a broad scope of coverage that includes the following elements of the internal audit activity:

- Conformance with the Definition of Internal Auditing; the Code of Ethics; and the Standards; and the internal audit activity’s charter, plans, policies, procedures, practices, and applicable legislative and regulatory requirements,
- Expectations of the internal audit activity expressed by the board, senior management, and operational managers,
- Integration of the internal audit activity into the organization’s governance process, including the relationships between and among the key groups involved in the process,
- Tools and techniques employed by the internal audit activity,
- Mix of knowledge, experience, and disciplines within the staff, including staff focus on process improvement, and
- Determination as to whether or not the internal audit activity adds value and improves the organization’s operations.
11. The preliminary results of the review are discussed with the CAE during, and at the conclusion of, the assessment process. Final results are communicated to the CAE, or other official, who authorized the review for the organization, preferably with copies sent directly to appropriate members of senior management and the board.

12. The communication includes:

- An opinion on the internal audit activity’s conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards based on a structured rating process. The term “conformance” means the practices of the internal audit activity, taken as a whole, satisfy the requirements of the Definition of Internal Auditing, the Code of Ethics, and the Standards. Similarly, “nonconformance” means the impact and severity of the deficiencies in the practices of the internal audit activity are so significant they impair the internal audit activity’s ability to discharge its responsibilities. The degree of “partial conformance” with the Definition of Internal Auditing, the Code of Ethics, and/or individual standards, if relevant to the overall opinion, should also be expressed in the report on the independent assessment. The expression of an opinion on the results of the external assessment requires the application of sound business judgment, integrity, and due professional care.
- An assessment and evaluation of the use of best practices, both those observed during the assessment and others potentially applicable to the activity.
- Recommendations for improvement, where appropriate.
- Responses from the CAE that include an action plan and implementation dates.

13. To provide accountability and transparency, the CAE communicates the results of external quality assessments, including specifics of planned remedial actions for significant issues and subsequent information as to accomplishment of those planned actions, with the various stakeholders of the activity, such as senior management, the board, and external auditors.

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