

# Lessons Learned from External Quality Assessments 2018



The Institute of  
Internal Auditors  
Netherlands

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# Lessons Learned from External Quality Assessments 2018

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### Title

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**The Institute of  
Internal Auditors  
Netherlands**

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# Content

Lessons Learned from External Quality Assessments 2018	5
Conclusion	6
The framework	7
Analysis and population	9
General results	10
International	11
Development over time	12
Differences by size	13
Differences by sector	15
The specific results	17
Code of Ethics	17
1000: Purpose, authority and responsibility	17
1100: Independence and Objectivity	18
1200: Proficiency and Due Professional Care	19
1300: Quality Assurance and Improvement Program	19
2000: Managing the internal audit activity	21
2100: Nature of Work	23
2200: Planning and 2300 Performing the Engagement	23
2400: Communicating the Results	25
2500: Monitoring Progress	25
2600: Communicating the Acceptance of Risks	25
Conclusion	26



# Lessons Learned from External Quality Assessments 2018

drs. Peter Hartog CIA

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 include 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 2018. It provides insight into the conclusions and recommended points for improvement that surface frequently. With this report IIA Netherlands intends to provide IAFs with points of reference for the next step in their quality improvement. The report is also an aid for IAFs in preparations for external quality reviews.

# Conclusion

The reviewed organisations conform with the quality standards to a large degree. Only three of the 35 organisations had a negative final score. At the same time, for many organisations improvements are possible and advisable on various Standards, to assure quality continuously. The Standards with the lowest scores were:

- The quality assurance and improvement programme (QAIP) (1300), especially in the performance of internal assessments and the reporting and discussion of the findings;
- The operational execution of audits, especially the careful fulfilment and recording of the planning and performing the engagements (2200 and 2300).

Generally, the positioning and structure of IAFs is in order. In this respect, the Netherlands is different from similar international studies. It is also pleasing to find that the conformance with virtually all Standards has improved compared to the comparable Dutch analysis over the period 2011-2013. However, the lowest scoring Standards remained the same.

It is good to note that also small IAFs are able to conform with the Standards. Although the three organisations that had the final evaluation 'does not conform' were all small IAFs, the scores on the Main Standards did not show significant differences based on size.

The conclusions are explained further in this report. The following issues will be described:

- The framework of the external quality assessments in the Netherlands.
- The external quality assessments conducted in 2018 and how the analysis is performed.
- The general results, also compared with previous similar analyses. The report will also address the differences between industries and between small and large(r) IAFs.
- The results on the various Standards; here, both aspects are described 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 to the internal auditors 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 2018, the reviews were carried out by seven 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<sup>1</sup>](https://www.tkt.nl/)), 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 Guideliness \(SG\)<sup>2</sup>](https://www.tkt.nl/en/document-scaling-guidelines), 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.

1 <https://www.iaa.nl/kwaliteit/kwaliteitstoetsingen>

2 <http://bit.ly/ScalGui>



The 'Regulations on Quality Assessments<sup>3</sup>' as they were in effect in 2018, distinguish two final assessments: 'conforms with the requirements' and 'does not conform with the requirements'. In a final assessment 'does not conform', the IAF must draw up and execute an improvement plan, within six months after the report date, after which a review is held.

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3 <http://bit.ly/RegKwal>

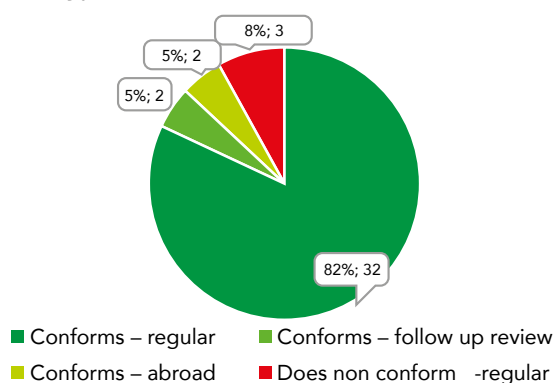
# Analysis and population

39 external assessments were performed in 2018, of which 35 were regular external assessments, two were follow-up reviews, and two were performed abroad. Of the 35 regular external assessments, 32 IAFs got the final assessment 'conforms' and three got 'does not conform'. The two follow-up reviews and the two abroad resulted in a 'conforms'.

The analysis below is based on the 35 regular assessments. The follow-up reviews (where only the realisation of the improvement plan was reviewed) and the reviews performed abroad (where the detailed information of the Dutch IAF is missing) were disregarded.

The 35 IAFs reviewed represent a broad range of sizes and types. The size varied from 1.9 to 400 FTEs, where 17 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 between the profit-financial sector (13), profit-non-financial sector (13) and the non-profit sector (9).

Types of assessments and final scores



# General results

As stated earlier, with 32 organisations assessed positively, there was a high degree of conformance with the IIA framework of standards. The three organisations that did not conform with the requirements were small IAFs in the profit-non-financial (1) and non-profit (2) sectors.

## Code of Ethics

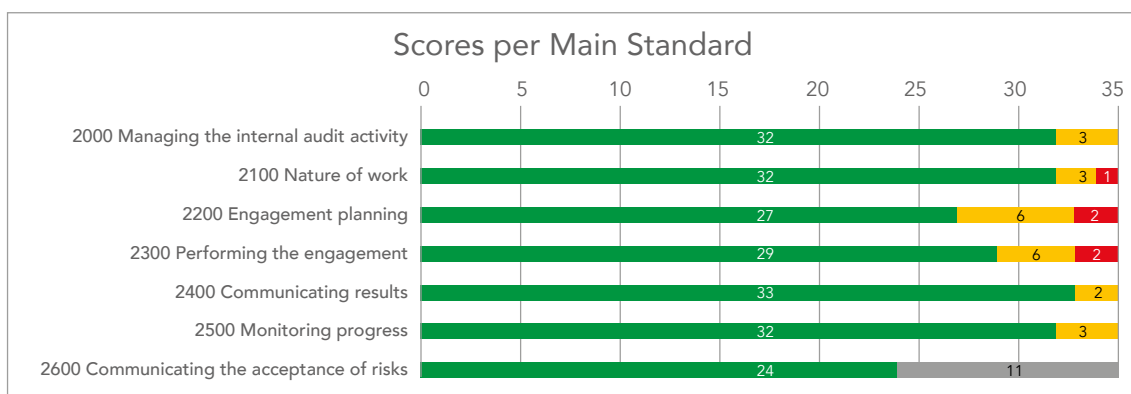
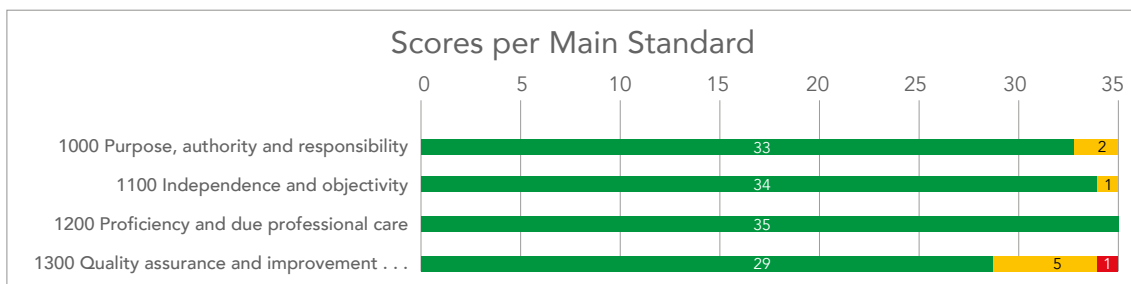
Conformity with the Code of Ethics was 100%.

## 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.

It is noted that at the standard level, in contrast to the final assessment, there are three possible conclusions, being:

- GC = generally conforms;
- PC = partially conforms;
- DNC = does not conform<sup>4</sup>.



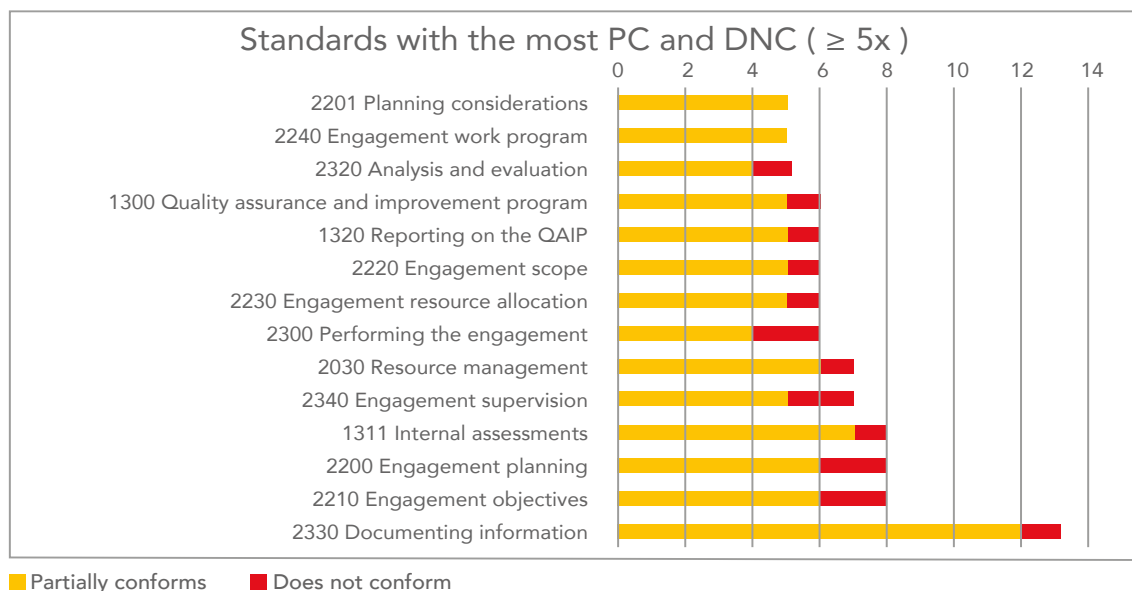
■ Generally conforms   ■ Partially conforms   ■ Does not conform   ■ NA

<sup>4</sup> If the relevant Standard did not apply, a 'NA = not applicable' was given.

The Standards with the lowest scores were:

- 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 poorly scoring sections, several underlying Standards showed poor scores.

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



## International





In 2017, the USA based IIA Quality Services carried out a similar [analysis](#)<sup>5</sup> of quality reviews (see table below). It showed that conformance with the Attribute Standards was especially poor. The top five 'areas of non-conformance' were the various 13xx Standards and Standard 1010. This poor QAIP score was also evident in the CBOK report '[Internal Audit Quality Assurance and Improvement](#)<sup>6</sup>' (2016). It showed that globally only 37% of the CAEs indicated that they conformed with these requirements in full, and in Europe 41%.



5 <http://bit.ly/BreaStan>

6 <http://bit.ly/CBOKqaip>

## TOP AREAS OF NONCONFORMANCE

The IIA's Quality Services identified the top 10 standards least conformed with, in order, by organizations for which it had performed an external quality assessment in 2015. All Attribute Standards from the listing also appeared in the top 10 from 2014.

Rank	Attribute or Performance	Standard
1	A 	<b>1311</b> Internal Assessments
2	A	<b>1010</b> Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter
3	A 	<b>1320</b> Reporting on the Quality Assurance and Improvement Program
4	A	<b>1310</b> Requirements of the Quality Assurance and Improvement Program
5	A	<b>1312</b> External Assessments
6	P	<b>2020</b> Communication and Approval
7	P 	<b>2300</b> Performing the Engagement
8	P	<b>2100</b> Nature of Work
9	P	<b>2500</b> Monitoring Progress
10	A 	<b>1300</b> Quality Assurance and Improvement Program

 = also in the Dutch top 10  
 = in the Dutch top 14, ≥ 5 non-C

2017, IIA Quality Services<sup>7</sup>

In this respect, we can be proud in the Netherlands. Here, too, Standard 1300 is one of the standards on which there is room for improvement at relatively many organisations, but still some 80% of the organisations scored 'generally conforms' here. This is probably because the Netherlands is relatively far advanced with the implementation and enforcement of the system of mandatory external quality assessments. In contrast, 9 of the 10 worst scoring Standards in the Netherlands were Performance Standards; so it is doing worse on the daily performance of audits.

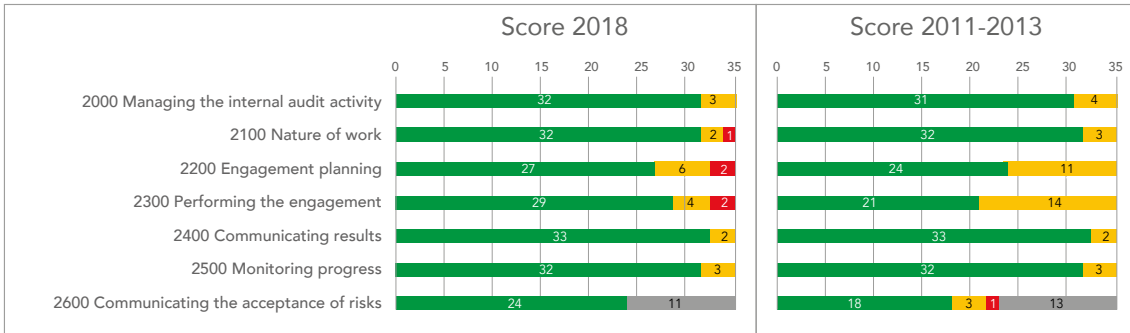
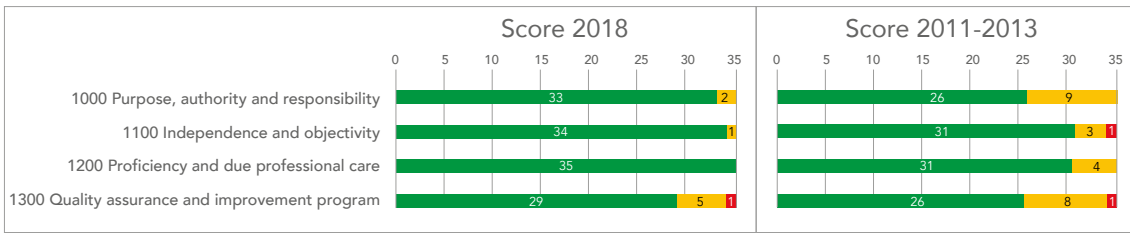
### Development over time

Another interesting question is whether there is improvement over time. The table below, which shows a comparison with the similar [analysis for 2011/2013](#)<sup>8</sup>, shows that this is indeed the case.

For the Attribute Standards, there is particularly strong improvement on the 'organisational' Standards. The application of QAIP is also improved, but less markedly so. The scores on the Performance Standards are generally slightly improved, but Standards 2200 and 2300 continued, as before, to score relatively high for non-complete conformance.

<sup>7</sup> This figure was reprinted with permission from the February 2017 issue of Internal Auditor, published by The Institute of Internal Auditors, Inc., [www.theiia.org](http://www.theiia.org).

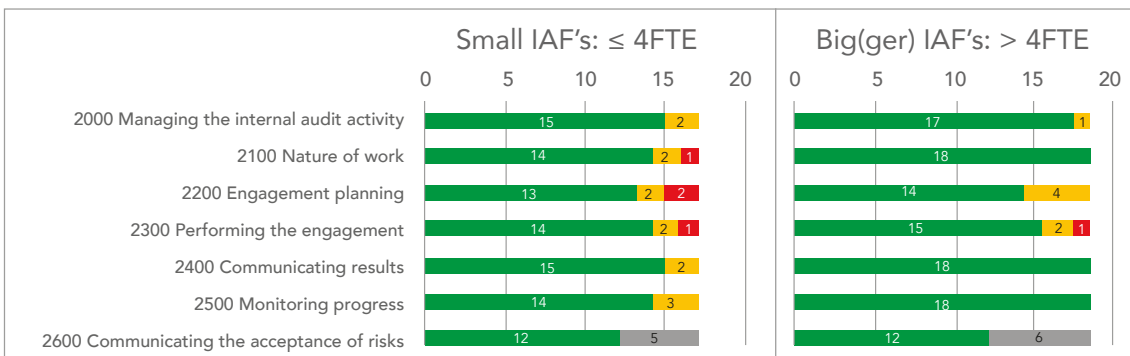
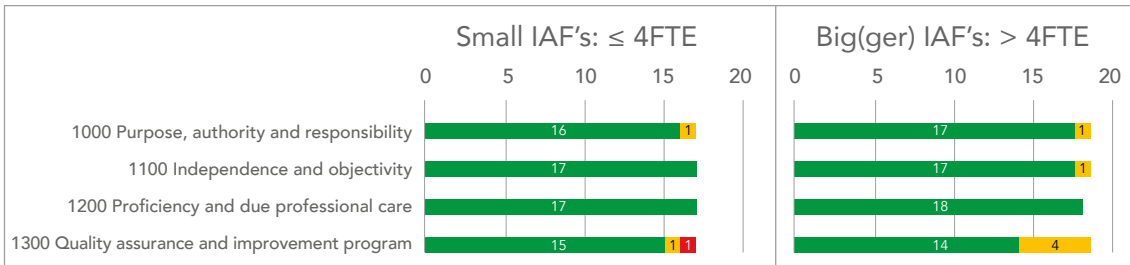
<sup>8</sup> <http://bit.ly/iafasses>



■ Generally conforms 
 ■ Partially conforms 
 ■ Does not conform 
 ■ NA

### Differences by size

A question often asked is to what extent small IAFs (defined as functions with a staff of 4 FTEs or less) can conform with the Standards. It is known that conformance with the Standards in particular is challenging for small IAFs. To support small IAFs in the implementation, a Practice Guide [Assisting Small Internal Audit Activities in implementing the Standards](#)<sup>9</sup> has been compiled by IIA Global.






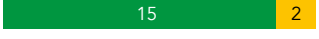




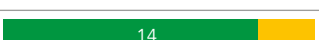


■ Generally conforms 
 ■ Partially conforms 
 ■ Does not conform 
 ■ NA

9 <http://bit.ly/SmallIAF>

The first observation is that all large IAFs conformed with the requirements overall, while three of the 17 small IAFs had a 'does not conform' final score. Of these, one organisation passed after a follow-up review. The three small IAFs are active in different sectors, both profit and non-profit.

Although the three organisations that had the final assessment 'does not conform' were all small IAFs, the scores on the Main Standard did not show significant differences based on size. It may be concluded that the smaller IAFs also appear to be able to conform with the Standards. This confirms the (extreme) example from 2016, when it was observed that a single person IAF could also conform with the IFFP 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 
1100	Independence and Objectivity	H	17 
1200	Proficiency and Due Professional Care	M	17 
1300	Quality Assurance and Improvement Programme	H	15 
2000	Managing the Internal Audit Function	H	15 
2100	Nature of Work	M	14 
2200	Planning the Engagement	H	13 
2300	Performing the Engagement	H	14 
2400	Communicating the Results	M	15 
2500	Monitoring Progress	M	14 
2600	Communicating the Acceptance of Risks	M	12 

The challenge appears to be less marked in practice than the Practice Guide anticipates. Although the practice on the Performance Standards generally matches expectations, in the sense that most of the non-conformance is present in the 'high-challenge' areas, in general the small IAFs have succeeded in taking the requisite compensating measures. Notably, in two areas that the Practice Guide mentions as the main challenges - independence (1100) and (retaining) qualified staff (1200), all small IAFs reviewed conformed 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 (service providers, regulatory, executive), a housing association and a school community.



Notably, there was almost full conformance with the Attribute Standards (1000-1300) in both profit sectors. This may have been (partly) caused by the Dutch Corporate Governance Code and other regulations, which more or less mandate an IAF in these sectors. By extension, there are also requirements on positioning and requisite expertise. This is even stronger in the financial sector, and reinforced by the presence of regulators.

Other striking points were:

- The non-profit sector scored lower than the other sectors, especially on Standards 1300, 2000 and 2500.
- Standard 2300 is one of the standards with the lowest scores overall. But in the profit-non-financial sector 100% of IAFs scored 'conforms', while the financial sector with only 70% and the non-profit sector with 80% scored far lower in relative terms.





LOW | MEDIUM | HIGH

↑  
QUALITY

# The specific results

Below, we take a closer look at the results for the Code of Ethics and 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 improvement we can draw from the analysis of the quality assessments carried out.

## Code of Ethics

The Code of Ethics is based on four principles: Integrity, Objectivity, Confidentiality and Competency. These have been fleshed out in the Code of Ethics into a number of 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.

### 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. But 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. So important, in fact, 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 two IAFs partially conformed with Standard 1000 and four IAFs partially conformed with Standard 1010), but 10 IAFs were still given recommendations to improve the charter. These recommendations mainly concerned missing aspects that really do belong in a charter. The assessments highlighted especially that the following elements are not always sufficiently included:

- The services that are provided and not provided;
- The relationship with the Audit Committee (AC), in particular whether the IAF charter is in fact in line with the AC regulations, and that the mutual responsibilities and expectations therefore match;
- The 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 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<sup>10</sup>](#), which gives 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 that gives direction to the entire IAF and in which the agreements with the client are laid down.

Following on from this, the charter must periodically be evaluated with senior management and the Board. 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 in tandem with a more extensive evaluation of the state of affairs (the periodic, preferably annual, internal assessment (1311)) at the start of the annual plan. This guarantees that the requisite development activities are included in the annual schedule and that at the start of the year all basic conditions are in order.

## 1100: Independence and Objectivity

Actually, with all IAFs the positioning and interaction with the Board and the AC(1111) was such that the independence was guaranteed. Five organisations were given recommendations; these concerned mostly the desired annual confirmation of independence (1110).

A particular 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, which states that in such a case there must be guarantees to limit any degradation of independence or objectivity. Both the Implementation Guidance and the [memo<sup>11</sup>](#) from the Committee Professional Practices of the IIA describe the prerequisites or compensating measures under which this is allowed. Among the organisations reviewed in 2018, three had CAEs that were also responsible for other, especially second line of defense activities; in one of these, independence was not fully guaranteed.

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10 <http://bit.ly/SupChar>

11 <http://bit.ly/VaNoTKT>

## 1200: Proficiency and Due Professional Care

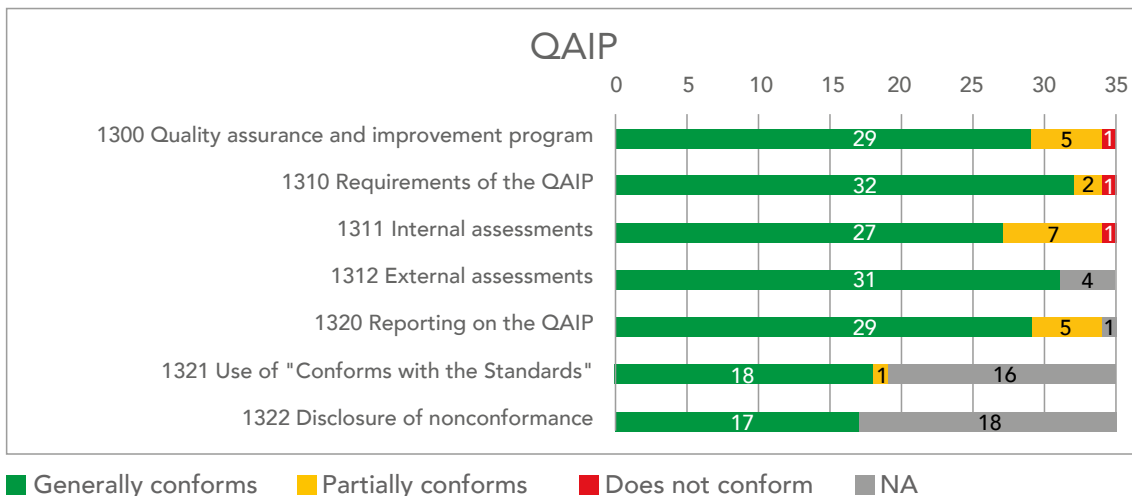
This concerns the quality of the audit employees: do they have sufficient knowledge and skills, are these applied with due care and also consistently maintained? This was the case in all organisations reviewed.

Even so, there were relatively many recommendations for the quality of the staff, or for their proficiency (1210). This must be seen in conjunction with Standard 2030, which deals with managing and guaranteeing that the staffing is in order, both quantitatively and qualitatively. Standard 1210 mostly deals with the (qualitative) results of that.

In approx. 30% of the assessments, a lack of knowledge or the need to improve knowledge in certain areas was highlighted, whether or not in conjunction with a lack of diversity in the composition of the team. The main knowledge areas that were flagged up as points of attention or improvement were ICT, data analytics and soft controls. These appear to be mainly aspects related to the requirements based on developments within and outside the profession. In this sense, this was a repeat of the 2013 analysis, when it was established that 'recommendations were made to some IAFs to take more account in the training plans with external developments that (will) set more demands on the requisite knowledge, expertise and skills'.

## 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 all the more important in view of the speed and complexity of the developments that organisations and therefore also IAFs were facing. In spite of this, it is one of the Standards on which scores were relatively poor; many organisations are finding it hard to carry out the whole of activities of a fully-fledged QAIP properly. In total, one IAF did not conform with Standard 1300 and four IAFs partially conformed; ten IAFs (just under 30%) scored 'does not conform' or only 'partially conforms' on one or more Substandards.



As the table above shows, the points for improvement mainly concerned:

- Standard 1311 - Internal Assessments

Eight organisations conformed partially or did not conform, while points of improvement were flagged up for ten. The internal assessments comprised 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 ten organisations mainly concerned:

- The actual combination of periodic self-assessments and reviews (in the context of ongoing monitoring);
- A broad assessment on all Standards, so not just the audits performed;
- A sufficiently pervasive assessment with sufficient dossiers;
- Performing customer assessments and incorporating them in the QAIP.

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 \(IA AM\)](#)<sup>12</sup> provides a very useful means for this, not least because the results, in the form of a spider's web, can also be used for discussion purposes, both internally and with the different stakeholders. Currently work is being done on an automated tool for the IA AM that offers an option for real-time benchmarking of the IAF with other, similar organisations.

- Standard 1320 - Reporting on the Quality Assurance and Improvement Program

Five organisations did not conform fully, and six organisations were given recommendations. 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.

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 half the reviewed organisations. Conversely, unjustified reporting of conformance did not occur.

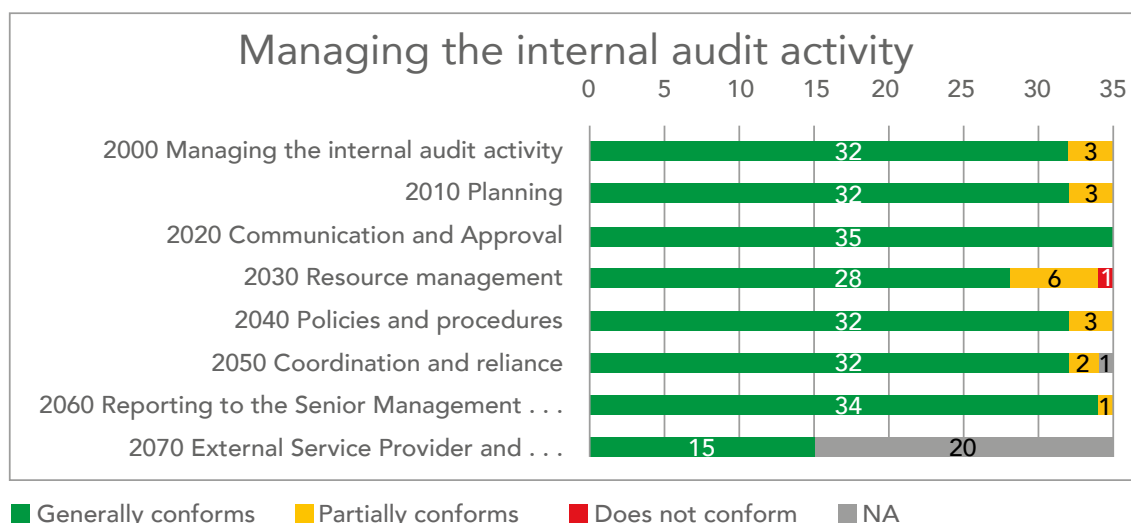
*The above concerns the Attribute Standards. These refer to attributes, especially positioning and structure, of the IAF. Below, we will describe the Performance Standards, which concern the IAF's processes or the performance of the activities. The Performance Standards expand upon the Attribute Standards by providing the requirements applicable to assurance (.A) or consulting (.C) services.*

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12 <https://www.iaa.nl/kwaliteit/ambition-model>

## 2000: Managing the internal audit activity

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.



Generally, the management of the department was in order at all the reviewed organisations; only three organisations only partially conformed with Standard 2000. However, on virtually all underlying Standards a number of ‘partially conforms’ were issued and even more often points for improvements were flagged up. Resource Management (2030), which concerns especially personnel management scored relatively poorly: One instance of ‘does not conform’ and six of ‘partially conforms’. The main points of attention for the Substandards are listed below.

### **Standard 2010 - Planning**

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

- Explicit addressing of fraud risks. This is a recent point, for which the NBA has made Fraud Risk Factors training mandatory for all registered accountants in 2019.
- The coverage of the ‘audit universe’ in the analysis that underlies the annual plan (the choice of the audits to investigate the main risk areas). As a matter of fact, it is not necessary to actually audit the entire ‘universe’ (in one or multiple years); after all, the point is to address the main risks. One 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.

### **Standard 2030 - Resource Management**

No less than 16 organisations were given recommendations in the area of staff composition. As stated, this Standard must be considered in conjunction with Standard 1200. The required diversity of the staff complement and supplementation of knowledge and skills (especially ICT, data analytics and soft controls) so as to adequately identify and investigate all risks are already addressed there.



A specific point of attention for managing the staff complement is the consideration to make use of non-auditors to cover gaps in the staff complement. This is already 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. During the [Professional Practices Day](#)<sup>13</sup> in November 2018 and the [PAS Conference 2018](#)<sup>14</sup> possible forms as well as pitfalls and success factors in this area were addressed.

### ***Standard 2040 - Policies and Procedures***

Seven organisations were given recommendations on 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 also 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:

- 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 the other way around) 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 is essential to ensure that the much used 3 Lines of Defense Model (3LoD-model) works well. 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).

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13 <http://bit.ly/001cpp>

14 <http://bit.ly/pas18WS>

Four organisations were given recommendations. These concerned:

- The process: explicitly name the other functions with which there is or could be a relationship and create a form of periodic consultation (matched to the products to be delivered). In this consultation, both the division of duties itself and the requirements must be addressed in order to be able to use the other's activities.
- The functions: these may differ from one organisation to the next, but comprise especially in industrial organisations also the Safety & Health and Quality Assurance functions (which perform e.g. ISO 9000 audits).

It may be considered per aspect to make the 'control tower' or the 3LoD model more concrete and make explicit who (which department or officer) deals with which line and how to guarantee that the next line can lean on the 'previous' line's work, so that doubling of work is prevented.

## 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. In general, this was the case. For some organisations it was determined that not enough attention had been given to:

- Auditing the culture (Standard 2110 - Governance);
- Periodic reporting on the status of the risk management (in addition to attention for the management of specific risks in audits) (Standard 2120 - Risk Management).

## 2200: Planning and 2300 Performing the Engagement

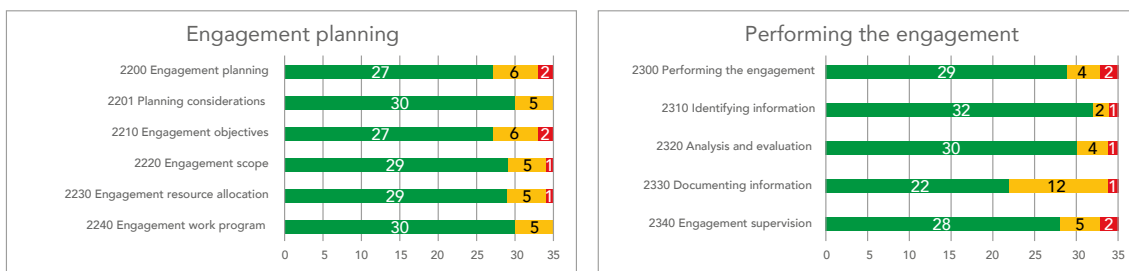
The main problems with the conformance with these Standards are in the operational performance of audits: eight and six organisations respectively did not conform or conform fully with this Main Standard. In addition, over half of the organisations reviewed (20 out of 35!) were given points of improvement on this Standard. 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.

Moreover, these Standards were the same ones that were acted on most poorly in the period 2011-2013. This appears to be difficult to solve. It is often said that this takes (too much) time and that the focus is often on '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 properly 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 due to the fact that 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 lots of debate about how to interpret



the findings of the fieldwork. It is important to find the right balance, supported by tools that are making this easier.



■ Generally conforms ■ Partially conforms ■ Does not conform

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. The main points of attention are:

- Standard 2201 – Planning Considerations: the completeness of the risk analysis, whereby fraud risks must explicitly be assessed;
- Standard 2220 – Engagement Scope: a clear description of the scope of the audit (both of what is and what is not audited, so that there can be no difference in expectations);
- Standard 2230 – Engagement Resource Allocation: the documentation of the considerations;
- Standard 2240 – Engagement Work Program: the explicit approval of the work program, so that there are no misunderstandings and all concerned agree that this program will achieve the objectives of the audit.

Regarding Standard 2300 – Performing the Engagement, the following points merit special attention:

- Standard 2330 – Documenting Information:
  - the completeness of the information, both of the negative and the positive findings. After all, also positive conclusions are the result of the audit and are often decisive for the acceptance of the totality of the results;
  - The presence of the audit trail, which refers to the substantiation of the conclusions. This Standard also addresses the (access) security and retention periods of the dossiers. These had been adequately dealt with by virtually all organisations.
- 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. Especially the recording of the supervisory reviews was a point of attention for a number of 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 'partially conforms': 11 organisations were given recommendations to improve the quality of the reporting, and especially its clarity. These affect all aspects of the 'reporting in writing', both the structure of the report and the clarity of the text.

Limited use was 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 acts in conformance with the Standards (Standard 1321). Over half of the organisations reviewed (19) did not use such a statement, so that this constituted a 'not applicable'. Conversely, unjustified reporting of conformance did not occur.

## 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 'partially conforms'.

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 defense Control function. The essence is that the IAF can establish that the critical points have actually been adequately resolved.

One consideration is offering management to expand the monitoring with the findings of advice engagements, to that 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. The reviews did not identify any problems in this respect.

# Conclusion

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. Not just for its own sake, but as a means to optimise the 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.



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