Quality Assurance Review (QAR) Services
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These services include a full external QAR, or an Independent Validation of a Self-Assessment (SAIV) performed by the internal audit department.

The objective of a QAR is to determine whether an internal audit function/program is in general compliance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors, and to determine whether they are meeting management's needs. If a full QAR assessment is performed, we will also provide Best Practices that relate to the internal audit program being reviewed.   These Best Practices will be based on the review team's experience with internal audit programs at different organizations, practice guidance provided by the Institute of Internal Auditors, and knowledge of the program being reviewed.

Our QAR services will meet the requirements of Standard 1312 of the *International Standards for the Professional Practice of Internal Auditing*, which provides the following:

"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; and
- The qualifications and independence of the external reviewer or review team, including any potential conflict of interest."

Our reviews will also help the internal audit program increase the effectiveness of their audits, and bring value to their organization.

Depending on the size of the program and other factors, the audit departments will choose between one of the following methods to meet the requirements of this Standard:

- A Full External Assessment described in Practice Advisory 1312-1; or
- An Internal Self-Assessment with Independent Validation (SAIV) described in Practice Advisory 1312-2.

Performance of Work

We will perform our reviews in accordance with the Quality Assurance Manual (QAM) developed by the Institute of Internal Auditors, with modifications as necessary to fit the audit program being reviewed.   These modifications, which could include

additions of other areas to consider or deletion of areas not applicable to the program, will be based upon experience performing quality reviews for other organizations and our experience in the internal audit profession.

Upon completion, we will issue a report with the results of our review to the respective audit agency head or other appropriate recipient.   Our report will follow the guidelines for reporting provided in The IIA's QAM and indicate whether the individual elements reviewed "generally conform (GC), partially conform (PC) or do not conform (DNC)" with the professional standard established for that element.

These conformance ratings are defined by The IIA, and are as follows:

GC – "Generally Conforms" means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects.   For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.   As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, "successful practice," etc.

PC – "Partially Conforms" means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives.   These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organization.

DNC – "Does Not Conform" means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual *Standard* or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

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As additional information, the Institute of Internal Auditors has published the history of conformance for QARs they have performed since 1997. The results are:

GC – 90%
PC – 10%
DNC – 0%

We anticipate that most internal audit programs would follow these general ratings.

See below for further information of the main topics that will be included in the final report.

Other Considerations

Our over-riding principle in performing QAR services is that, in addition to providing assurance related to conformance with professional internal audit standards, QARs should add value, be a positive experience for the audit department and its personnel, and result in a QAR Report that the audit program fully agrees with.

Our approach to performing QARs and validations of self-assessment efforts are designed to overcome the shortcomings many have experienced in QARs:

- Too much preparation time
- Cost too much
- Were too long
- Report was too controversial – suggested changes, but no real value
- Didn't report the positive elements of the internal audit program identified during the review– reports were findings- or exception-based
- Were too much like an audit and not enough like consulting
- Had too much "review", and not enough "sharing"
- Reviewers imposed their personal standards and practices, instead of asking "What do the Standards say?"

In providing these services, we will utilize The IIA *Quality Assessment Manual*, but our experience is that the approach and specific Tools provided in The IIA's QAM are very detailed, and if not used with care can result in excessive time being spent in both an SAIV and a full external assessment.

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Therefore in providing quality assurance services, we begin our work with discussion and agreement on the major steps of the review, the extent of the Tools to be used, and the nature of interviews and surveys to be conducted. This approach is further described below.

The general steps for performing the services are as follows, with more details provided below.

Full External Assessment

- Selection of Vendor for External Assessment
- Planning – 3 months before on-site work
- On-site work – 3 to 5 days
- Wrap-up – within one month after on-site work

Internal Self-Assessment with Independent Validation (SAIV)

- Selection of Vendor for Validation
- Planning – at least one month before Self-Assessment begins
- The Self-Assessment – a period of no more than 4 weeks for the self-assessment team
- The Validation Process – one to three days, at the end of the Self-Assessment process

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Steps in a Full External Assessment

The following is a summary of our general approach for full external assessments. We plan our work to not take more than 10 consecutive business days to complete the on-site work and that the Quality Assessment report shall be issued within 30 days of completion of the on-site work.

Planning and initial communication – commenced 3 months before on-site work is performed

- Phone conversation to discuss major steps of the review, identify audit workpapers to be reviewed, and determine surveys and interviews to be conducted.
- Provide access to selected audit workpapers for review team to review prior to on-site work
- Schedule on-site interviews
- Schedule meetings to discuss Program Areas, including:
    o Selection of audits (annual audit planning)
    o Reports produced for audit committee and management
    o Audit manual and other guidance
    o Hiring and skills of internal auditors
    o Internal Quality Assessment processes
    o Independence, objectivity and charter of audit program
- Distribute surveys to audit clients and audit staff
- Provide audit program documents for review team to review before on-site work, including:
    o Audit Manual
    o Audit Charter
    o Annual Audit Plan
    o Reports on Metrics Related to Audit Performance
    o Status Reports to Board

On-site Work – 3 to 5 days at the audit program's offices

- Introductory meeting
- Provide draft of QAR Report to agree format of the Report
- Conduct audit client and staff interviews
- Conduct meetings to discuss Program Areas (identified above)
- Consider audit department Best Practice Opportunities
- Discuss results of workpaper reviews
- Deliver draft of QAR report

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- Conduct exit meeting to discuss draft of QAR report

Report Issuance
- Delivery final QAR report within one month after on-site work is completed.

Determination of Full External Assessment or Validation of Self-Assessment

Either a full external assessment or validation of self-assessment can be used to comply with Standard 1312, regardless of the size of the internal audit program. Although more costly, the full external assessment includes the following benefits not part of a validation:

- Suggestions of best practice opportunities by the external team
- Consideration of advanced information technology audit procedures
- Review of the role of audit program in the organization's Sarbanes-Oxley, Enterprise Risk Management, or other compliance program.

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Steps in an Internal Self-Assessment with Independent Validation (SAIV)

The following is a summary of the general approach to be used for the validation of a self-assessment by an internal audit program:

Planning – commenced at least one month prior to the performance of internal self-assessment:

- Phone conversation to discuss major steps of the self-assessment, discuss audit workpapers to be reviewed, and determine surveys and interviews to be conducted.
- Discuss the qualifications of the self-assessment team leader. The team leader should be:
  - Certified Internal Auditor
  - Trained or experienced in conducting QAR's
  - Familiar with using The IIA's Quality Assurance Manual
- Schedule timeframe for the validation
- Discuss IIA Tools or other review guides to use in reviewing Program Areas, including:
  - Selection of audits (annual audit planning)
  - Reports produced for audit committee and management
  - Audit manual and other guidance
  - Hiring and skills of internal auditors
  - Internal Quality Assessment processes
  - Independence, objectivity and charter of department
- Discuss activities of the self-assessment team regarding reviews for Best Practice Opportunities
- Agree to discuss non-conformance areas as they arise and to provide the Self-Assessment Report IN DRAFT FORM to the Validator before their on-site/validation work.

Self-assessment by internal auditors – should be done over period of no more than four weeks

- Conduct the Self-Assessment like a regular audit, including audit program, working papers, tracking time, and progress reporting
- Conduct interviews, surveys, work paper reviews and Program Areas as agreed.
- Discuss non-conformance areas with Validator as identified

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- Prepare DRAFT of Self-Assessment Report, and provide to Validator before the Validation Process
- Prepare DRAFT of IIA Tool 19 (Standards Conformance Evaluation Summary), and provide to Validator before the Validation Process

The Validation Process – typically on-site and taking 1-3 days (See discussion below)

- Review Validator's comments on DRAFT Self-Assessment Report and DRAFT Tool 19
- Interviews with functional and administrative reports of the chief audit executive
- Review workpapers prepared by Self-Assessment team
- Conduct other reviews of Program Areas as deemed necessary
- Finalize the Self-Assessment Report
- Finalize the Validator's Report to append to the Self-Assessment Report

Determination of On-site or Off-site Fieldwork for Validation of Self-Assessment

We believe the validation of a self-assessment is best performed during a 1-3 day on-site visit. On-site, face-to-face discussions will allow a more effective review of the self-assessment and validation reports, and help identify areas for improvement the audit department might want to consider. Such improvements are not always clear without on-site work.

For small and medium size internal audit programs, the validation can potentially be performed off-site provided sufficient information is provided to us remotely. This would include:

- Workpapers prepared by the Self-Assessment team, including those arising from the use of the IIA self-assessment tools.
- Draft Self-Assessment Report
- The assessment's team opinion on conformance with the *Standards* using Tool 19
- Phone interviews with functional and administrative reports of the chief audit executive

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- Audit charter, audit manual, annual audit plan, and selected progress reports to the board
- Selected reports on metrics related to audit performance

We will provide a complete list of the information needed for our review during the course of our work.

For large internal audit programs, we do not believe a validation of the self-assessment is possible without an on-site visit.

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QAR Reports

We expect our QAR reports to be modeled after Tool 20 in the IIA's Quality Assessment Manual.   Other report formats are also acceptable and will be discussed in the planning of reviews.

In general, both full external QAR Reports (prepared by the external QAR review team) and Self-Assessment with Independent Validation Reports (prepared by the internal self-assessment team) will have the following sections:

     I.   Introduction
     II.   Overall Summary of Conformance
     III.   Action Plans to Improve Areas Where Conformance Does Not Meet Expectations
     IV.   Best Practice Opportunities
     V.   Other Observations

In addition, a SAIV Report will contain a one-page Validator's Report.

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