INTERNAL AUDIT PERSPECTIVES SUBJECT:

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM (QAIP)

IAI
Canada
Montréal

Introduction

DIn an increasingly complex and demanding environment, the Quality Assurance and Improvement Program (QAIP) proves to be an essential pillar for any internal audit function. This program is designed to ensure the quality and effectiveness of audit activities, help the function meet stakeholder expectations, and enhance the credibility and added value of internal audit within the organization. This article delves into the importance of QAIP and best practices for evaluating the internal audit function.

We discuss with Marielle Perrotin, Executive Director at KPMG, to identify the key elements of an effective QAIP, such as external assessments, self-assessments, and continuous monitoring. We also explore the new standards effective from January 2025 to understand how QAIP can be used to comply with these requirements and strengthen the internal audit function.

Biography

Marielle Perrotin is an Executive Director at KPMG with 25 years of experience in Quebec and previously in France. She assists her clients in establishing, operationalizing, and improving their internal audit function. She advises them on their quality assessment and improvement program, both at the external and internal evaluation levels. Her experience also encompasses governance, risk management, and contractual compliance.

Interview

01 What is the QAIP, and how does it contribute to the overall success of an internal audit function?

The QAIP is an essential framework designed by the head of the internal audit function to ensure compliance with the International Standards for the Professional Practice of Internal Auditing (the Standards), achieve performance objectives, and promote continuous improvement. It includes internal and external assessments to identify strengths and areas for improvement.

A well-structured QAIP offers a critical perspective on operations, ensures alignment with best practices in internal auditing, and facilitates regular dialogue with stakeholders about the function's performance. These stakeholders include the board of directors, management, the heads of audited activities, and internal audit team members. The QAIP also allows internal audit staff to develop their skills and better understand the perspectives of the audited by experiencing evaluations themselves.

02 There are different types of quality assessments, such as external assessments, self-assessments, and maturity analyses. What are the differences between these types of assessments, and what are their advantages for an internal audit function?

These different types of assessments are actually complementary.

Continuous monitoring involves regular tracking of internal auditors' work. It relies on supervision and feedback from the internal audit function's stakeholders, including the audited. It is facilitated by using software and templates aligned with the internal audit methodology.

Periodic self-assessments verify compliance with the Standards, evaluate the adequacy and application of audit methodologies, and analyze the achievement of the function's objectives. Their frequency varies depending on the organization's complexity, the maturity of the internal audit function, changes affecting the internal audit function (e.g., personnel or methodology), or the organization as a whole (e.g., merger). They are often conducted to prepare for external assessments. The advantage of these assessments is to have a comprehensive and regular view of compliance with the Standards and to engage the internal audit team in improvement. After all, it is the auditors themselves who identify the areas for improvement.

External assessments are generally less frequent. They occur at least every five years but can be more frequent if needed. An external assessment can be particularly useful for a newly appointed head of internal audit to help them get a complete overview and build a roadmap. These assessments provide increased objectivity, thanks to a fresh and external perspective, as well as new improvement suggestions since the external evaluator can bring their knowledge of best practices observed in different organizations. Additionally, as the work is done by external resources, additional information can sometimes be obtained through more anonymous feedback. Finally, the internal team retains more availability to execute the internal audit plan and other daily tasks.

Self-assessments followed by independent validation combine the advantages and disadvantages of the previous two approaches. They incur lower fees for organizations and improve the ownership of results and action plans by the internal audit teams but are more time and energy-consuming and require deploying an appropriate methodology.

Maturity analyses identify the steps needed to reach a target maturity level suitable for the organization. They have the advantage of pushing the audit function and its stakeholders to consider the target maturity level based on their business realities.

03 What is the optimal process for planning an external quality assessment of the internal audit function?

An external quality assessment of the internal audit function is a financial, time, and energy investment for the organization. To reap all the benefits, it must be carefully planned. Key elements include:

- **Collecting stakeholder expectations** regarding the assessment process, particularly from the board of directors or audit committee and senior management, to pay special attention to topics corresponding to their interests and concerns.

- **Determining the right timing.** The mandatory five-year deadline must be respected to comply with the Standards. After a significant change, the best timing is a delicate balance between waiting long enough to have sufficient material for the assessment but not too long to obtain an objective diagnosis and start making necessary corrections.

- **Choosing the right team.** To get the full value of the exercise, it is essential to have an experienced assessment team whose members not only have a deep understanding of the Standards but also their practical application. The team should have extensive demonstrated experience in internal audit, including conducting engagements, governance, and managing an internal audit function, including relationships with the board of directors and senior management.

- **Establishing the scope.** The period covered should be extensive enough to be meaningful, but it is suggested to focus on elements that are still relevant. For example, if a new internal audit software has been implemented to help structure the audit approach and standardize

documentation, there would be little value in assessing files completed previously. Also, in the case of an organization with a complex legal structure, it is necessary to target which internal audit teams and organizational entities to include in the scope. When multiple jurisdictions are involved, it is necessary to determine which evaluation criteria should be used, in addition to the Standards, as regulations or other standards may also apply.

- **Selecting stakeholders** to interview to have a holistic, relevant, and objective understanding of the internal audit function's perception. Interviews are generally conducted with the audit committee, senior management members, heads of audited activities, the head of internal audit, and internal audit team members.

- **Establishing a communication protocol** between the internal audit team and the assessment team. Regular updates on progress, required documents, blocking points, and preliminary findings are suggested for a smooth and effective assessment process.

04 What about maturity analyses? Do you have best practices to share or examples of models to use?

Maturity analyses generally follow a structured process that includes the following steps:

1. Identifying several evaluation axes of maturity.

2. Defining maturity levels for each axis based on specific criteria.

3. Determining the organization's target maturity level, usually through interviews, considering the organization's needs, values, resources, and complexity.

4. Measuring the actual maturity level for each axis using the criteria. This involves interviews, document reviews, and surveys.

5. Measuring the gap between the target maturity level and the actual maturity level.

6. Proposing recommendations and establishing action plans to reach the desired maturity level.

Several maturity evaluation models exist. For example, the Internal Audit Maturity Model developed by IIA Netherlands is a recognized tool. This model is available in English and allows internal audit managers to compare the organization's data with a database. Other proprietary models developed by consulting firms can also be used.

05 Regarding continuous improvement as a whole, what best practices have you observed that can be applied to strengthen the effectiveness of an internal audit function?

Besides the planning elements mentioned earlier, here are some recommended practices based on my experience:

- **Understanding the organization's expectations:** It is essential to start by identifying the organization's expectations of the internal audit function. This forms the basis for calibrating the conclusions and recommendations of the program.

- **Implementing robust continuous monitoring mechanisms:** Use a structured work methodology, ideally integrated into appropriate software, that guides auditors through the process and various stages of an internal audit.

This facilitates compliance with many standards. A key step in the quality assurance program is ensuring that the methodology aligns with the Standards. Without this alignment, it is difficult to guarantee that the work complies with the Standards.

- **Working on message clarity during reporting:** When presenting the quality assurance program results, it is important that the findings and their concrete significance for the organization are perfectly clear in terms of risks and benefits for the organization. Using simple language and business-specific terms relevant to the organization and its industry will be more effective than using internal audit jargon.

06 I cannot omit asking you about the new standards effective from January 2025. Could you comment on these new standards in the context of QAIP?

Briefly, here are the main changes to the Standards:

Reorganization of the reference framework: The five mandatory elements of the old framework are integrated into a single document in five domains – internal audit mission, ethics and professionalism, internal audit function governance, internal audit function management, and internal audit activities. These domains are divided into 15 principles, broken down into 52 standards.

Support and encouragement from the board and management: Standards 6.1 to 8.4 describe the responsibilities of the head of internal audit to support the board of directors and senior management in their oversight responsibilities.

Developing a strategy for the internal audit function: Standard 9.2 requires the head of internal audit to develop and implement a strategy aligned with the organization's strategic objectives and consider the expectations of the board of directors, management, and other stakeholders.

Defining the internal audit plan: The plan must contribute to achieving the organization's objectives and be based on an assessment of the organization's strategies, objectives, and risks, based on the head of internal audit's understanding of the organization's governance, risk management, and control processes. It must consider areas covered by IT governance, fraud risk, and the effectiveness of compliance and ethics programs. It must identify the necessary human, financial, and technological resources and be updated in case of changes in activities, risks, or systems (Standard 9.4).

Coordination with other assurance providers: Standard 9.5 requires the head of internal audit to coordinate with other internal and external assurance providers and consider using their work to optimize risk coverage while reducing duplication of work.

Content of the audit report: An overall rating is not mandatory, but the conclusion must summarize the results. For an assurance engagement, the content of the conclusion is specified (Standard 14.5). Additionally, findings must be ranked by importance (Standard 14.3), with significance established based on the likelihood of occurrence and the impact of the associated risk. Ratings are now recommended.

Requirement for QAIP: At least one person on the independent external assessment team must hold a valid Certified Internal Auditor (CIA) designation.

In my opinion, there are several strategies for compliance, starting inevitably with training internal auditors. It is necessary to acquire a sufficient understanding of the changes and the distinction between strict requirements and implementation elements that provide more concrete guidance on how the requirements can be met. Subsequently, a gap analysis must be conducted. This means identifying the required elements that are not in place in the internal audit function. Several approaches can be considered:

Internal self-assessment: Conducting a self-assessment on all standards provides a comprehensive picture and allows for holistic and streamlined action plans for compliance. This self-assessment also fosters richer and more structured exchanges with the board of directors and senior management. The main difficulty of this approach lies in the need to take positions in interpreting certain standards.

Gap analysis by an external provider: This offers similar advantages to the previous approach but also provides better visibility of peer trends in interpreting the standards. Additionally, this approach benefits from methodologies and templates often already developed for conducting gap analyses.

Agile project management approach: Instead of addressing all changes at once, this iterative and incremental method allows for adjusting priorities based on the internal audit function's needs. At the end of each «sprint,» a tangible result is achieved.

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About IIA Montreal

Founded in March 1945, the Institute of Internal Auditors, Montreal Chapter (IAI Montréal), is a non-profit organization incorporated under the Quebec Companies Act. It brings together nearly 900 members and is governed by a board of directors supported by committees.

Our chapter's mission is to support and develop internal audit professionals throughout their careers, as well as promote the role and value of the profession. Our vision is to be recognized as a preferred partner by the business community, ensuring relevance and innovation within the profession.

Our slogan? The ultimate partner for the growth of our members!

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