



International Professional
Practices Framework

Implementation Guide 1312

Standard 1312 – External Assessments

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

- The form and frequency of external assessment.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

Revised Standards, Effective 1 January 2017

Getting Started

As this standard indicates, the chief audit executive (CAE) is responsible for ensuring that the internal audit activity conducts an external assessment at least once every five years by an independent assessor or assessment team from outside the organization. A requirement of the internal audit activity's quality and assurance improvement program (QAIP), the external assessment validates that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing (Standards)* and internal auditors apply The IIA's Code of Ethics. Thus, it is crucial that the CAE regularly reviews the International Professional Practices Framework (IPPF) and is aware of any changes that may need to be communicated throughout the internal audit activity.

The CAE typically has an understanding of different types of external assessments as well as various resources available to provide such services. The CAE is also typically aware of any procurement policies his or her organization may have related to securing an external services provider. In addition, the CAE should be aware of independence requirements for the external assessor or assessment team and understand situations that may impair independence or objectivity, or create a conflict of interest.

Considerations for Implementation

Typically, the CAE has discussions with senior management and the board regarding the frequency and type of external assessment that will be performed. Such discussions enable the CAE to educate stakeholders and to gain an understanding of, and appreciation for, the organization's expectations.

The *Standards* require the internal audit activity to undergo an external assessment at least once every five years. However, upon discussing these requirements with senior management and the board, the CAE may determine that it is appropriate to conduct an external assessment more frequently. There are several reasons to consider a more frequent review, including changes in leadership (e.g., senior management or the CAE), significant changes in internal audit policies or procedures, the merger of two or more audit organizations into one internal audit activity, or significant staff turnover. Additionally, industry-specific or environmental issues may warrant more frequent review.

External assessments assess the internal audit activity's conformance with the *Standards* and provide an evaluation of whether the internal auditors apply the Code of Ethics. As noted in Standard 1320 – Reporting on the Quality Assurance and Improvement Program, the external assessment results, including the assessor's or the assessment team's conclusion on conformance, must be communicated to senior management and the board upon completion.

Two Approaches

External assessments may be accomplished using one of two approaches: a full external assessment, or a self-assessment with independent external validation (SAIV). A full external assessment would be conducted by a qualified, independent external assessor or assessment team. The team should be comprised of competent professionals and led by an experienced and professional project team leader. The scope of a full external assessment typically includes three core components:

- The level of conformance with the *Standards* and Code of Ethics. This may be evaluated via a review of the internal audit activity's charter, plans, policies, procedures, and practices. In some cases, the review may also include applicable legislative and regulatory requirements.
- The efficiency and effectiveness of the internal audit activity. This may be measured through an assessment of the internal audit activity's processes and infrastructure, including the QAIP, and an evaluation of the internal audit staff's knowledge, experience, and expertise.
- The extent to which the internal audit activity meets expectations of the board, senior management, and operations management, and adds value to the organization.

The second approach to meeting the requirement for an external assessment is an SAIV. This type of external assessment typically is conducted by the internal audit activity and then validated by a qualified, independent external assessor. The scope of an SAIV typically consists of:

- A comprehensive and fully documented self-assessment process that emulates the full external assessment process, at least with respect to evaluating the internal audit activity's conformance with the *Standards* and Code of Ethics.

- Onsite validation by a qualified, independent external assessor.
- Limited attention to other areas such as benchmarking; review, consultation, and employment of leading practices; and interviews with senior and operations management.

External Assessor Qualifications

Regardless of which approach is selected for the external assessment, a qualified, independent external assessor or assessment team must be retained to complete the assessment. The CAE usually consults with senior management and the board to select the assessor or assessment team. Assessors or assessment teams must be competent in two main areas: the professional practice of internal auditing (including current in-depth knowledge of the IPPF), and the external quality assessment process. Preferred qualifications and competencies generally include:

- Certification as an internal audit professional (e.g., Certified Internal Auditor).
- Knowledge of leading internal auditing practices.
- Sufficient recent experience in the practice of internal auditing at a management level, which demonstrates a working knowledge and application of the IPPF.

Organizations may seek additional qualifications and competencies for assessment team leaders and independent validators, including:

- An additional level of competence and experience gained from previous external assessment work.
- Completion of The IIA's quality assessment training course or similar training.
- CAE (or comparable senior internal audit management) experience.
- Relevant technical expertise and industry experience.

Individuals with expertise in other areas may provide assistance, as appropriate. Examples include specialists in enterprise risk management, IT auditing, statistical sampling, monitoring systems, and control self-assessment.

The CAE should determine the skillsets desired for the external assessment and use professional judgment to select the assessor or assessment team. Based on the needs of the

internal audit activity, for example, the CAE may prefer individuals with internal audit experience in an organization of a similar size, complexity, and industry, as these professionals may be more valuable. Each individual on the team does not need to possess all of the preferred competencies; rather, the team as a whole should possess the necessary qualifications to provide the best results.

Assessor Independence and Objectivity

The CAE, senior management, and the board should consider and discuss several factors related to independence and objectivity when selecting an external assessor or assessment team. External assessors, assessment teams, and their organizations should be free from actual, potential, or perceived conflicts of interest that could impair objectivity. Potential impairments may include past, present, or future relationships with the organization, its personnel, or its internal audit activity (e.g., external audit of financial statements when the external audit relies on the work of the internal audit activity; assistance to the internal audit activity; personal relationships; previous or future participation in internal quality assessments; or consulting services in governance, risk management, financial reporting, internal control, or other related areas).

In cases where the potential assessors are former employees of the internal audit activity's organization, consideration should be given to the length of time the assessor has been independent. (Independent, in this context, means not having a conflict of interest and not being a part of, or under the influence of, the organization to which the internal audit activity belongs).

Individuals from another department of the organization, although organizationally separate from the internal audit activity, are not considered independent for the purpose of conducting an external assessment. In the public sector, internal audit activities in separate entities within the same tier of government are not considered independent if they report to the same CAE. Likewise, individuals from a related organization (e.g., 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) are not considered independent.

Reciprocal peer assessments between two organizations would not be considered independent. However, reciprocal assessments among three or more peer organizations — organizations within the same industry, regional association, or other affinity group — may be considered independent. Still, care must be exercised to ensure that independence and objectivity are not impaired and all team members are able to exercise their responsibilities fully.

Considerations for Demonstrating Conformance

The external assessor's report is the primary document used to demonstrate conformance with Standard 1312. This report often includes recommendations from the external assessor and management action plans to improve internal audit quality, efficiency, and effectiveness, which may provide new ideas or ways for the internal audit activity to better serve the organization's stakeholders and add value.

Additional documents that may help demonstrate conformance include minutes of board meetings where plans for, and results of, external assessments were discussed. A benchmarking report and requests for services may show the organization's due diligence in vetting external assessors.

About The IIA

The Institute of Internal Auditors (The IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 180,000 members from more than 170 countries and territories. The association's global headquarters are in Lake Mary, Fla. For more information, visit www.globaliia.org or www.theiia.org.

About Implementation Guidance

Implementation Guidance, as part of The IIA's International Professional Practices Framework® (IPPF®), provides recommended (non-mandatory) guidance for the internal audit profession. It is designed to assist both internal auditors and internal audit activities to enhance their ability to achieve conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Implementation Guides assist internal auditors in applying the *Standards*. They collectively address internal audit's approach, methodologies, and consideration, but do not detail processes or procedures.

For other authoritative guidance materials provided by The IIA, please visit our website at www.globaliia.org/standards-guidance or www.theiia.org/guidance.

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