



International Professional
Practices Framework

Implementation Guide 2070

Standard 2070 – External Service Provider and Organizational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

Interpretation:

This responsibility is demonstrated through the quality assurance and improvement program which assesses conformance with the Code of Ethics and the Standards.

Revised *Standards*, Effective 1 January 2017

Getting Started

When an external service provider is employed by an organization to serve as its internal audit activity, it is important that the external service provider understands the 1300 series of standards and can make the organization aware of its responsibility for maintaining a quality assurance and improvement program (QAIP) that covers all aspects of the internal audit activity. The external service provider should ensure that the QAIP encompasses all aspects of internal audit operations and management, in accordance with the mandatory elements of the International Professional Practices Framework (IPPF) and best practices of the internal audit

profession.

The QAIP concludes on the quality of the internal audit activity and its services within the organization and may lead to recommendations for continuous improvement. The QAIP must include ongoing monitoring, periodic self-assessments, and external assessments conducted by a qualified independent party to support conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* and The IIA's Code of Ethics.

The implementation guides for the 1300 series of standards provide more information about QAIP requirements, including internal and external assessments, reporting results to the board and senior management, and use of “conforms with the *International Standards for the Professional Practice of Internal Auditing.*”

Considerations for Implementation

When an organization outsources internal audit work, it is not released from the responsibility for maintaining an effective internal audit activity. Thus, even when the internal audit activity is outsourced, the organization maintains responsibility for ensuring that the internal audit activity performs its responsibilities effectively and efficiently and conforms with the *Standards* and that individual internal auditors conform with the *Standards* and the Code of Ethics.

A QAIP, as required by Standard 1300 – Quality Assurance and Improvement Program, includes both internal and external assessments. When an organization hires an external service provider to serve as the chief audit executive (CAE), that service provider must make the organization aware that the organization is responsible for maintaining an effective internal audit activity, which includes ensuring that the QAIP includes both internal and external assessments in conformance with the *Standards*.

The CAE — or the external service provider hired to serve in the CAE's role — should ensure that the organization is aware of its responsibilities related to the QAIP. Typically, a contract (i.e., engagement letter) between the organization and the external service provider specifies the service provider's responsibilities and deliverables related to the QAIP. An external service provider hired to serve as the CAE and operate as the organization's outsourced internal audit activity may also meet with senior management and the board to discuss the organization's

responsibilities and the nature and requirements of a QAIP. These requirements are articulated in the 1300 series of standards.

- **Standard 1300 – Quality Assurance and Improvement Program** explains that the CAE must develop and maintain a QAIP that encompasses all aspects of the internal audit activity. Where an external service provider assumes the role of CAE, the service provider may actually develop and maintain the QAIP if this is part of the contractual agreement. However, the hiring organization still maintains ultimate responsibility for the quality of the internal audit activity.
- **Standard 1310 – Requirements of the Quality Assurance and Improvement Program** stipulates that the QAIP must include both internal and external assessments.
- **Standard 1311 – Internal Assessments** states that the mandatory internal assessments must include both ongoing monitoring and periodic self-assessments. Where an internal audit activity is outsourced completely to an external service provider, ongoing monitoring and periodic self-assessments may be performed by the external service provider, in accordance with the contract.
- **Standard 1312 – External Assessments** explains the requirements for external assessments, including their form and frequency (at least once every five years) as well as the qualification and independence requirements for the external assessor or assessment team. It's important to note that in cases where the entire internal audit activity is outsourced to an external service provider, the scope of external assessments is based solely on the work conducted for the hiring organization. Additionally, the organization should ensure that the external assessor or assessment team selected to perform the external assessment meets independence requirements.
- **Standard 1320 – Reporting on the Quality Assurance and Improvement Program** outlines the CAE's responsibilities for communicating the results of the QAIP to senior management and the board. An external service provider hired to serve as the CAE and operate as the organization's outsourced internal audit activity typically meets with the board and senior management to discuss reporting requirements and expectations.

- **Standard 1321 – Use of “Conforms with the *International Standards for the Professional Practice of Internal Auditing*”** indicates that internal audit activity may only communicate — in writing or verbally — conformance with the *Standards* if results of the QAIP (including internal and external assessments) support such a statement.
- **Standard 1322 – Disclosure of Nonconformance** requires the CAE — or the external service provider hired to serve as CAE — to disclose to senior management and the board any instances where the internal audit activity does not conform with the *Standards* or the Code of Ethics and how the lack of conformance impacts the overall scope or operation of the internal audit activity.

Considerations for Demonstrating Conformance

Multiple documents may indicate conformance with Standard 2070. First, the contract (i.e., engagement letter) between the organization and the external service provider may offer evidence of the organization’s responsibility related to maintaining a QAIP. The two primary products of these responsibilities are the documented QAIP and the results of internal and external assessments. For internal assessments, documentation typically consists of the results of ongoing monitoring efforts, as well as findings, corrective action plans, and corrective actions taken as a result of periodic internal assessments to improve conformance with the mandatory elements of the IPPF. Additionally, any documentation of actions taken to improve internal audit efficiency and effectiveness may help demonstrate conformance with the standard. For external assessments, documentation from the external assessor or assessment team, or written independent validation of a self-assessment, may be used to indicate conformance.

Agendas and minutes from meetings with senior management and the board may indicate that the external service provider communicated the organization’s responsibilities related to maintaining an effective internal audit activity. Meeting records could also evidence that the CAE reported on QAIP results, as required by the *Standards*. Evidence of such communication could also include memos to file or other written documents.



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 (nonmandatory) 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.

Disclaimer

The IIA publishes this document for informational and educational purposes. This guidance material is not intended to provide definitive answers to specific individual circumstances and, as such, is only intended to be used as a guide. The IIA recommends that you always seek independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this guidance.

Copyright

Copyright® 2016 The Institute of Internal Auditors. For permission to reproduce, please contact guidance@theiia.org.