



# IIA External Quality Assessments and the New Standards



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# INTRODUCTION



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# PRESENTERS PROFILES

- **Elaine Nissley**, Principal, CISA, PMP, CRMA, CRISC, CCSFP
  - Over 30 Years of Internal Audit and Internal Controls Experience
  - Leads the Internal Audit Practice
  - Provides Internal Audit Outsourcing services
  - Sarbanes Oxley and OMB Circular A-123 Compliance
  - NIST 800-53 based Independent Assessments
- **Victor Kong**, Senior Manager, CIA, CRMA, CCSA, qAC, CFE
  - Over 18 years of Internal Audit and Internal Controls Experience
  - Leads Internal Audit or Sarbanes-Oxley projects
  - Experienced EQA Assessor



# FIRM OVERVIEW

McKonly & Asbury is a team of CPAs and Business Advisors serving clients from our offices in Camp Hill, Lancaster, and Bloomsburg.

We provide **Advisory & Business Consulting, Audit & Assurance, Entrepreneurial Support & Client Accounting, Internal Audit, Professional Placement, Tax, and Technology** services to a variety of industries including:



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# OBJECTIVES:

- The What & Why of External Quality Assessment (EQA)
- Types of EQA
- EQA coverage areas
- EQA process
- How the new standards (GIAS) impact EQA
- Options if your EQA is due in the transition year
- Common EQA observations from the assessors
- How to have a successful EQA



# WHAT IS EXTERNAL QUALITY ASSESSMENT (EQA)?

As defined by The IIA:

“...evaluates conformance with the definition of Internal Auditing and the International Standards for the Professional Practice of Internal Auditing (Standards), and the Code of Ethics.”



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# WHY DO WE NEED AN EQA?

- Both the current (IPPF) & the new (GIAS) *Standards* Require:
  - Every internal audit function must have an EQA at least once every five years.
  - Organizations that state its audits are “conducted in accordance with the IIA standards” must meet the five-year review requirement.



# OTHER BENEFITS OF AN EQA

- Demonstrate conformance to the Standards & Code of Ethics
- Enhance stakeholder confidence
- Assess the skills & strategies to meet future needs
- Evaluate the effectiveness of the QAIP
- Continuous improvement
- Gain insight on perceptions and reputation of IA
- Assessment of IA's alignment with the organization's strategies, objectives, risks & plan





# TYPES OF EQA

- There are two types of EQA:
  1. A full-scope independent external assessment
    - Most comprehensive approach
    - External independent assessor performs all the work
    - More external cost for the internal audit activity



# TYPES OF EQA

## 2. A self-assessment with independent validation (SAIV)

- IA activity performs the self-assessment
- External independent validator reviews & provides “independent validation”
- Less external cost for the IA activity
- Requires IA internal staff time and commitment
- External Independent Validator
  - Co-sign the conformance report or,
  - Issue a separate disparities report



# FOUR SEGMENTS OF EQA

- EQA can be divided into four segments:
  1. Internal Audit Governance
  2. Internal Audit Staff
  3. Internal Audit Management
  4. Internal Audit Process



# 1<sup>ST</sup> SEGMENT: INTERNAL AUDIT GOVERNANCE

- Covers the processes & structures implemented by the board to inform, direct, manage, & monitor the activities of the IA activity toward the achievement of its objectives.

## IPPF Attribute Standards series:

- The Code of Ethics
- 1000 – Purpose, authority, & responsibility
- 1100 – Independence & objectivity
- 1300 – QAIP

## GIAS Standards series:

- Principle 1 – Demonstrate Integrity
- Principle 2 – Maintain Objectivity
- Principle 5 – Maintain Confidentially
- Principle 6 – Authorized by the Board
- Principle 7 – Positioned Independently
- Principle 8 – Overseen by the Board



# 2<sup>ND</sup> SEGMENT: INTERNAL AUDIT STAFF

- Proficiency, due professional care, & continuing professional development of internal audit staff.

## IPPF Attribute Standards series:

- 1200 – Proficiency & Due Professional Care

## GIAS Standards series:

- Principle 3 – Demonstrate Competency
- Principle 4 – Exercise Due Professional Care



# 3<sup>RD</sup> SEGMENT: INTERNAL AUDIT MANAGEMENT

- Integration into the organization's governance processes
- Contribution to the organization's risk management and controls.

## IPPF Performance Standards series:

- 2000 – Managing the Internal Audit Activity
- 2100 – Nature of Work
- 2450 – Overall Opinions
- 2600 – Communicating Acceptance of Risks

## GIAS Standards series:

- Principle 9 – Plan Strategically
- Principle 10 – Manage Resources
- Principle 11 – Communicate Effectively
- Principle 12 – Enhance Quality



# 4<sup>TH</sup> SEGMENT: INTERNAL AUDIT PROCESS

- Perform internal audit engagements from planning to completion include follow-up review.

## IPPF performance Standards series:

- 2200 – Engagement Planning
- 2300 – Performing the Engagement
- 2400 – Communicating Results
- 2500 – Monitoring Progress

## GIAS Standards series:

- Principle 13 – Plan Engagements Effectively
- Principle 14 – Conduct Engagement Work
- Principle 15 – Communicate Engagement Results and Monitor Action Plans



# EQA PROCESS:

EQA process consists of six phases:

1. Planning
2. Surveys
3. Interviews
4. Audit workpaper review
5. Evaluations
6. Reporting





# EQA PROCESS: PLANNING

- Assessment Planning:
  - Define scope & objectives
  - Select & prepare team
  - Gather background information
  - Arrange preliminary meeting or visit
  - Prepare document request list



# EQA PROCESS: SURVEYS

## ■ Surveys:

### ■ Participants:

- Audit committee members
- Executive leadership
- Operations management
- Internal audit staff

- Conduct survey & summarize responses
- Review stakeholder needs & expectations
- Identify opportunities for improvement & areas of strength



# EQA PROCESS: INTERVIEWS

## ■ Interviews:

- Participant list is similar to the survey
- Follow-up on the survey variations
- Address issues such as:
  - Internal satisfaction
  - IA staff understanding of the Standards
  - IA staff's independence
  - Perceptions of management's response to audit feedback



# EQA PROCESS: WORKPAPER REVIEW

- Audit workpaper review:
  - Review a sample of completed audits to determine
    - Audit procedures are followed – Planning to completion
    - Quality of audit documentation & supervision
    - Correct conclusion related to work performed
    - Quality of audit communication and reporting



# EQA PROCESS: EVALUATION

- Based on all the information gathered, evaluate the level of IA activity's conformance with the *Standards*
- *Three levels of conformance:*
  1. Generally conforms
  2. Partially conforms
  3. Does not conform
- Summarize issues
- Make recommendations
- Closing conference



# EQA PROCESS: REPORTING

## ■ Reporting

- An opinion-based report that includes
  - Overall conformance or non conformance with the *Standards*
  - Standards and conformance levels
  - Summary of issues
  - Process strengths
  - Opportunities for improvement
- Issue draft report for comment
- Issue final report to CAE



# HOW THE NEW STANDARDS AFFECT THE EQA?

- New Global Internal Audit Standards (GIAS)
  - Released on January 9, 2024
  - Effective January 9, 2025
- The current Standards (IPPF) remains approved for use during the transition year
- External Assessment – GIAS 8.4 replaces IPPF 1312



# NEW STANDARDS AND YOUR EQA?

- The new Standard 8.4 – External Quality Assessment
  - Board must ensure an EQA is conducted at least every 5 years
  - Requirements for the assessors:
    - Independent & objective
    - At least 1 member of the team must have an active CIA
    - Completion of EQA training recognized by The IIA





# OPTIONS FOR AN EQA IN THE TRANSITION YEAR

- If your next EQA is due in early 2024
  - Proceed with the current *Standards*
- If your next EQA is due in late 2024 or in 2025
  - Can choose to accelerate your assessment to early 2024 and follow the current *Standards*



# OPTIONS FOR AN EQA IN THE TRANSITION YEAR

It is recommended that:

- If your assessment is due in 2025
  - Perform a gap assessment in 2024 for your readiness to implement the new *Standards*.
- If you have performed an EQA with the current Standards in 2024
  - Consider a gap assessment in late 2024 or in 2025 to help support accurate implementation of the new *Standards*



# COMMON OBSERVATIONS FROM EQA

According to the IIA Quality Services, common observations are:

- Lack of awareness with recent changes to *Standards*
- CAE reporting relationship not clearly defined
- Department structure issues
  - Reporting line
  - Alignment with organization
- Insufficient reporting to the Audit Committee
- EQA not performed at least once every five years



# COMMON OBSERVATIONS FROM EQA

- Lack of knowledge of the business & IT
- Department charter misaligned with Audit Committee charter
- Define & execute an internal audit strategic plan
- No formal up-to-date IA policies & procedures manual
- Not being risk based
  - Linkage of risk assessment to plan
  - External input to risk assessment



# COMMON OBSERVATIONS FROM EQA

- Ineffective resource planning & development
- No periodic (annual) internal assessments
- Inadequate performance metrics
- Infrequent management interaction
- No or limited use of technology to support risk assessment, planning, and engagement execution



# COMMON OBSERVATIONS FROM EQA

- Insufficient supervisory approval (and /or quality assurance process) of the audit program prior to fieldwork, the audit plan and completed workpapers
- Audit report findings not rated or prioritized
- Lack of formal client post-engagement feedback
- Lack of a formal IA follow-up process
- Recommendation to implement control self-assessment techniques during the planning phase of all audits



# HOW TO HAVE A SUCCESSFUL EQA

## ■ Notable ones:

- A robust Quality Assurance & Improvement Program(QAIP).
- Validate internal audit activity's alignment with organization's
  - Strategies
  - Objectives
  - Risks
- Internal audit governing documents are up-to-date
- Internal audit strategic plan & audit plan
- Audit engagements are properly prepared & reviewed
- Audit issues are tracked to completion
- Audit committee minutes are documented and kept



**THE END**

Questions or Comments?



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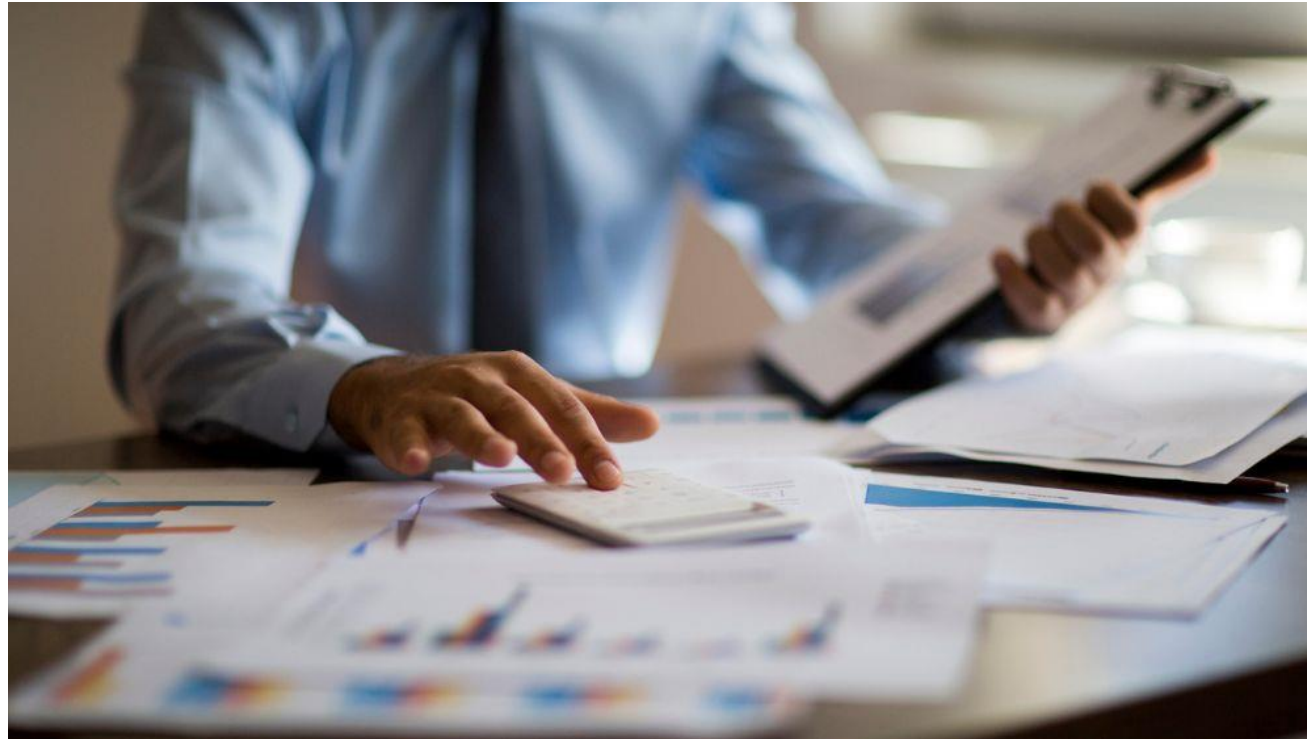


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# UPCOMING EVENTS

# MARCH 28 WEBINAR



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