



# Internal Assessments

## OVERVIEW

Chapter 3 outlines the requirements for performing internal assessments. Processes and procedures used to support external assessments might also be used for internal assessment purposes. For example, appendix D-4, “Internal Audit Process,” might be used to evaluate conformance with Standards 2200, 2300, 2400, and 2500 for periodic self-assessment purposes. They also might be used to evaluate quality for individual engagements as a component of ongoing monitoring.

Standard 1311 – Internal Assessments states, “Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.”

## Interpretation

*“Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and the Standards.*

*Periodic assessments are conducted to evaluate conformance with the Code of Ethics and the Standards.*

*Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.”*

## INTERNAL ASSESSMENTS

Implementation Guide 1311 – Internal Assessments states, “Ongoing monitoring is achieved primarily through continuous activities such as engagement planning and supervision, standardized working practices, workpaper procedures and signoffs, report reviews, as well as identification of any weaknesses or areas in need of improvement and action plans to address them.” These processes support quality on an audit-by-audit basis.

Self-assessments serve internal audit by evaluating conformance with the internal audit charter and the mandatory elements of the IPPF, the quality and supervision of audit work being done, internal audit’s policies and procedures, how internal audit adds value, and the achievement of KPIs. These processes provide insight into the level of conformance with the *Standards* and the Code of Ethics and the quality of the internal audit activity as a whole.

Implementation Guide 1300 – Quality Assurance and Improvement Program states, “Through conformance with the *Standards* and Code of Ethics, the internal audit activity also achieves alignment with the Definition of Internal Auditing and the Core Principles for the Professional Practice of Internal Auditing.”

# ONGOING MONITORING

Ongoing monitoring of performance is included in a QAIP to promote quality on an engagement-by-engagement basis. The processes and procedures that support ongoing monitoring are the basic foundation of the internal audit activity. Routine practices, such as supervisory review and approval of work performed, the use of checklists and templates embedded in an electronic workpaper tool, the use of customer surveys, and reporting of performance metrics, all support ongoing monitoring.

Adequate supervision is the most fundamental and important aspect of quality in an internal audit activity. Supervision that takes place at the appropriate times during annual audit planning and for engagement planning, fieldwork, and reporting, and is properly documented, demonstrates due professional care. It also promotes consistency, quality, and sustainability of internal audit processes and infrastructure.

Using checklists and templates embedded within an electronic workpaper tool further supports quality. These items provide the structure to ensure work is performed consistently between engagements. The use of checklists and templates allows internal auditors to focus on content as opposed to being concerned with form. This is viewed by many stakeholders as adding value within the internal audit process. Conducting surveys of key stakeholders at the conclusion of an engagement is another way to gain insight into the quality and value of the internal audit process from the perspective of the audit customer. These can also help to identify opportunities for continuous improvement in the internal audit process.

KPIs that are developed in collaboration with stakeholders and the board can provide valuable insight into the internal audit activity and can be used to promote enhanced efficiency, effectiveness, and quality. The use of a balanced scorecard is a particularly effective way to monitor and report results. Standard 1320 – Reporting on the Quality Assurance and Improvement Program requires that the results of ongoing monitoring be reported to senior management and the board at least annually. Incorporating a balanced scorecard into the periodic reports to the board is an excellent way to meet this communication requirement.

## Periodic Self-Assessment

Periodic self-assessments are designed to assess conformance with the *Standards*, the Code of Ethics, the internal audit charter, regulatory requirements, and the efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders. The QAIP should document and define a systematic and disciplined approach to the periodic self-assessment process, which could use guides and programs provided in the appendices of this manual. For example, Planning Guides A-0 through A-4—found in appendix A—can be used as a component of periodic self-assessment to ensure documents and insights of the CAE are kept current with regard to conformance criteria. This is especially important when changes to the IPPF occur or when the internal audit activity is undergoing significant change.

Survey guides—found in appendix B—might be used to monitor stakeholder input and insight related to the internal audit activity in periods between external assessments. The program guides found in appendix D provide a structured approach to evaluating conformance with the *Standards* and the Code of Ethics. At the same time, these program guides can be useful in documenting successful internal audit practices and opportunities for continuous improvement.



Appendix E provides a mechanism to summarize work performed using this manual for periodic self-assessment, and can provide a snapshot of conformance with the *Standards* and the Code of Ethics. The results of a periodic self-assessment, together with the conclusions drawn, must be communicated to senior management and the board upon completion of the assessment. At a minimum, the report should include the objectives, scope, and frequency of the periodic self-assessment; the qualifications and independence of the assessors or assessment team; the conclusions of the assessors; and any corrective action plans that have been created from the assessments to address areas that were not in conformance with the *Standards* or the Code of Ethics.

## Selecting the Periodic Self-Assessment Team

Periodic self-assessments are generally conducted by senior members of the internal audit activity who are qualified in the professional practice of internal auditing and the IPPF. Some larger organizations may use a separate professional practices group to perform these

self-assessments. In small organizations, self-assessments may be performed by the CAE or an individual under the direction of the CAE.

In all situations, the assessor or assessment team should be independent from the areas they review (they should not assess engagements for which they were primarily responsible) and competent in the practice of internal auditing. Many organizations try to have self-assessment team members who are CIAs. Team members might also include other qualified individuals from within the organization or a co-source provider of internal audit services familiar with the internal audit activity.

## Using Periodic Self-Assessment to Enhance Quality and Value

Periodic self-assessments provide the opportunity to combine assurance-type activities with consulting-type activities. Internal audit activities that do this effectively combine vertical and horizontal reviews of completed projects to support conformance with the *Standards*, the Code of Ethics, the internal audit activity methodology, as well as the efficiency and effectiveness of the underlying processes.



Vertical and horizontal reviews are the two generally accepted methods of performing quality reviews of completed audit projects. A vertical review provides an evaluation of conformance with the *Standards* or the Code of Ethics, and examines a specific project from a top-down approach (e.g., an assessment of individual audit steps performed for a specific project work plan, such as planning steps, fieldwork steps, and reporting steps).

A horizontal review allows for an evaluation across all project engagements (e.g., use of the risk assessment matrix, the supervisory review and approval process, or consistency in applying report ratings) from an efficiency and effectiveness perspective. Horizontal reviews can also be used to evaluate other infrastructure and processes such as annual risk assessment and audit planning or continuing professional development processes. A combination of these two methods is consistent with successful internal audit practice and contributes to continuous improvement of internal audit processes.

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## Frequently Asked Questions

1. **Question:** How do you differentiate between ongoing monitoring of performance and periodic self-assessment?

→ **Answer:** The objectives are unique but interrelated. Ongoing monitoring of performance promotes quality on an engagement-by-engagement basis and supports consistency, quality, and sustainability of internal audit activity processes and infrastructure. Periodic self-assessment is primarily designed to evaluate conformance with the *Standards* and the Code of Ethics during those periods when external assessment is not performed. Periodic self-assessment can also evaluate efficiency and effectiveness of the internal audit activity and identify opportunities for continuous improvement.

2. **Question:** How frequently should periodic self-assessments be performed?

→ **Answer:** Successful internal audit practice is for periodic self-assessments to be performed at least annually. This is especially critical when changes take place in the IPPF or in the organization that might impact the level of conformance with the *Standards* and the Code of Ethics.

3. **Question:** Is periodic self-assessment helpful in achieving general conformance?

→ **Answer:** Periodic self-assessments are the basis for a self-assessment with independent validation. When periodic self-assessments are performed annually, it ensures compliance with the IPPF and provides evidence that quality is built into, and not onto, internal audit processes and activities.