



# Self-Assessment with Independent Validation

## OVERVIEW

Standard 1312 – External Assessments requires that an external assessment of an internal audit activity be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The objective of the external assessment is to evaluate an internal audit activity’s conformance with the *Standards* and Code of Ethics. Implementation Guide 1300 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.”

External assessments may also focus on identifying opportunities to enhance internal audit processes, offer suggestions to improve the effectiveness of the internal audit activity, promote ideas to enhance the activity’s image and credibility, and offer operational or strategic comments. This approach embraces the successful practices of the profession and emphasizes governance, risk management, and control processes as important areas for auditors’ attention. External assessment recommendations focus on opportunities for continuous improvement and are

offered to enhance conformance with the *Standards* and the Code of Ethics and the internal audit activity's ability to add value to the organization.

As noted in Standard 1312 – External Assessments, “External assessments may be accomplished through a full external assessment, or a self-assessment with independent validation.” A self-assessment with independent validation includes a comprehensive and fully documented self-assessment process that requires the CAE to complete the self-assessment work, and normally provides limited attention to benchmarking, review, and consultation related to successful internal audit practice. Essentially, the CAE oversees the efforts of an internal assessment team that completes planning documentation, performs assessment work programs, evaluates conformance with the *Standards* and Code of Ethics, and produces a report summarizing assessment results.

The same basic body of work needs to be performed and documented for a self-assessment with independent validation as for a full external assessment (see chapter 4). The self-assessment should be performed with the same level of due professional care found in performing other internal audit engagements and should be structured in a manner that fully documents and supports planning, fieldwork, and reporting activities.



The independent external assessor or assessment team validates the work of the internal assessment team through review of assessment planning documentation, re-performing a sample of assessment work program steps, conducting interviews with key stakeholders (board members, executive leadership, operating management, and internal audit management and staff), and assessing the conformance conclusions reported by the internal assessment team.

The internal assessment team should expect to submit all of its documentation related to assessment planning, assessment work programs, and its final assessment report to the independent external assessor or assessment team well in advance of any on-site visit by the external assessor to perform the validation activities.

## DEFINING THE SCOPE OF THE ASSESSMENT

Implementation Guide 1312: External Assessments provides recommended guidance regarding the performance of a self-assessment with independent validation, and notes that the primary

objective is to assess conformance with the *Standards* and Code of Ethics. Through consultation with the board and senior management, the CAE should define the scope of the self-assessment with independent validation, which may include feedback on potential leading practices or identification of opportunities for enhancing existing internal audit activity processes.

## PLANNING

A well-established QAIP provides a solid framework for achieving a successful self-assessment with independent validation. The documentation, assessments, metrics, and reporting that comprise an internal audit activity's QAIP should be useful in preparing much of the material required to perform the assessment.

Planning, scheduling, and staffing the self-assessment should follow the same process the internal audit activity uses to execute and control any assurance or consulting engagement. Assigning resources necessary to complete the self-assessment should be part of the annual plan for the internal audit activity for the year in which the self-assessment with independent validation is to be performed. Progress updates regarding the self-assessment should be included with status reporting for all other engagements in the process as a component of periodic reporting to senior management and the board.

Many internal audit activities that utilize electronic workpapers for internal audit engagements find it helpful to document the self-assessment component as a separate audit in their workpaper system. This allows for documentation of planning, fieldwork, and reporting activities consistent with their prescribed framework, using guides, programs, tools, and templates as found in this manual.

Key considerations for determining resource requirements and preparing a schedule of activities for the self-assessment with independent validation include:

- An evaluation of additional documentation and analysis required by the planning tools (see appendix A) beyond what is readily available from the internal audit activity's existing QAIP documentation.



- An estimate of time required for distributing, collecting, and analyzing survey tools (see appendix B). This activity should be coordinated with the external independent assessor as discussed below.
- A proposal from the independent external assessor regarding the number of interviews (see appendix C) they wish to conduct with the board, senior executives, operating management, and internal audit activity management and staff. This activity should be coordinated with the external independent assessor as discussed below.
- An estimate of time required for the internal assessment team to complete the assessment programs (see appendix D). A critical assumption for this estimate is the number of engagement files to be reviewed as part of the internal audit process program.
- A discussion with the independent external assessor regarding how much time they need for their on-site work, and how far in advance of the on-site work they want to receive documentation prepared by the internal audit activity's internal assessment team.



Upon completion of the on-site work by the independent external assessor, the self-assessment with independent validation's schedule should allow time for the external assessor to complete the Independent Validation Statement (see appendix F-4).

## SELECTING THE INDEPENDENT EXTERNAL ASSESSOR FOR A SELF-ASSESSMENT WITH INDEPENDENT VALIDATION

As noted in the Interpretation to Standard 1312 – External Assessments, “*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 CAE should consult with the board and senior leadership regarding selection of the external assessor or assessment team based on a thorough review of their qualifications and experience. The CAE should also obtain a signed statement from the external assessor or assessment team confirming their independence as defined in the *Standards*. This is typically done during the contracting process.

## COMMUNICATION AND COORDINATION WITH THE EXTERNAL VALIDATION ASSESSOR



As indicated on the Quality Assessment Process Map appearing at the end of this chapter, most of the work in performing a self-assessment with independent validation is completed by the internal audit activity’s internal assessment team. However, the external assessor will perform some work during the on-site visit, and coordination with the internal assessment team will facilitate completion of the external assessor’s work.

One area requiring coordination is the completion of surveys (see appendix B). The internal assessment team (or CAE) and the external assessor should agree on who will be asked to participate in the surveys and on the schedule for completing the surveys. The internal assessment team would be responsible for sending out the surveys, and survey participants will normally send their responses directly to the external assessor for collation and evaluation of results. The external assessor will review results of the surveys with the CAE and the internal assessment team during the on-site visit. The external assessor will also use information gained from the surveys in completing interviews with key stakeholders.

Another area for coordination is scheduling and conducting interviews (see appendix C) with key stakeholders. Again, the internal assessment team (or CAE) and the external assessor should agree on who will be interviewed and on the schedule for completing the interviews. Interviews are normally conducted by the external assessor during the on-site visit. At a minimum, the external assessor or assessment team will interview the board committee chair responsible for internal audit activity oversight, the CEO, the person to whom the internal audit activity reports to administratively within the organization (if not the CEO), and the external audit partner. Other interviews of key stakeholders are specifically coordinated with the CAE.

During the on-site visit, the external assessor will review tests of audit engagement files prepared by the internal assessment team. The external assessor may also want to review other audit engagement files not reviewed by the internal assessment team. To enable the external assessor to complete this review, the internal assessment team should provide the external assessor with appropriate access to any relevant software.



## WORK TO BE COMPLETED BEFORE THE ON-SITE VISIT

The CAE should oversee completion of the self-assessment of the internal audit activity, which uses the same tools completed during a full external assessment (see appendices A, B, and D–F). Key elements of the self-assessment to be performed and documented by the internal audit activity’s internal assessment team include:

- Completing the planning guides (see appendix A), which include an analysis of the internal audit activity’s operations and answers to a series of questions that provide insight into the CAE’s views regarding specific conformance criteria related to the *Standards* or the Code of Ethics.
- Conducting surveys using the survey guides (see appendix B) that collect information from senior leadership, operating management, and internal audit management and staff regarding various aspects of the internal audit activity. Use of the surveys should be coordinated with the external assessor or assessment team as described above.

- Executing the assessment programs (see appendix D) that are intended to collect, evaluate, and document evidence of conformance with the *Standards* and the Code of Ethics.
- Summarizing results of the evaluation (see appendix E).
- Preparing a report (see appendix F) of the results of the self-assessment to be validated by the external assessor and eventually distributed to the board and other appropriate stakeholders.

All of the above materials should be made available to the external assessor for use in completing the review and validation of the self-assessment. The internal audit activity should coordinate with the external assessor or assessment team as to which documents will be supplied to the external assessor before the on-site visit. The external assessor will also schedule interviews to be conducted during the on-site visit.

## WORK COMPLETED DURING THE ON-SITE VISIT



During the on-site visit, the external assessor will review documentation prepared by the internal assessment team and perform sufficient tests of the self-assessment to validate results and express an opinion regarding conformance with the *Standards* and the Code of Ethics to include:

- Exercising professional judgment in determining the extent of testing of the self-assessment based on the size and complexity of the internal audit activity.
- Conducting interviews with key stakeholders to follow up on any issues or opportunities identified from the surveys—all within the agreed-upon scope of the self-assessment with independent validation.

As nearly all of the work performed during a self-assessment with independent validation is completed by the internal audit activity's internal assessment team, the amount of time required on site by the external assessor is normally much less than that required by an external assessment team performing a full external assessment.

# REPORTING AND FOLLOW-UP

Upon completion of fieldwork, the independent external assessor will provide an opinion confirming the results, or expressing disagreement with the self-assessment, as appropriate. If the external assessor is not in agreement with the self-assessment report, the external assessor can add dissenting wording to the report, specifying the points of disagreement.

The final report of the self-assessment with independent validation should be signed by the internal audit activity's internal assessment team and the independent external assessor, and issued by the CAE to senior management and the board (see appendix F).

---

## Frequently Asked Questions

1. **Question:** What are the costs and benefits associated with the decision to perform a self-assessment with independent validation versus a full external assessment?

→ **Answer:** The obvious difference is the higher out-of-pocket costs associated with a full external assessment. However, the internal audit activity's internal resource commitment may be much higher with a self-assessment with independent validation. Many CAEs choose to perform a self-assessment with independent validation following the initial establishment of their QAIP to achieve the benefit of building quality into the operations. The benefit of a full external assessment comes from a potentially broader scope than a self-assessment with independent validation, and perhaps a more robust assessment process being performed by an external team.

2. **Question:** I've heard the term "point-in-time assessment." What does that mean and what are the implications for a self-assessment with independent validation?

→ **Answer:** "Point in time," in the context of a self-assessment with independent validation, means that the conclusions drawn and reported are as of a specific date—typically the last date of fieldwork by the internal assessment team and the last day of on-site work by the external assessor



who performs the validation. This allows the external assessor performing the validation to take into consideration the results and discussions of the closing conference with the internal audit activity prior to finalizing conclusions. A point in time places greater reliance on data nearer that time. For example, workpapers reviewed for projects completed nearer the point in time provide stronger evidence of performance than workpapers for engagements from several years prior to the self-assessment. It is critical to remember that while a self-assessment report and corresponding validation may be issued as of a “point in time,” the QAIP is a continuous process that incorporates ongoing monitoring of performance and periodic assessment to ensure that levels of conformance with the *Standards* and the Code of Ethics continue to be strengthened during periods between external assessments.

## QUALITY ASSESSMENT PROCESS MAP

The Quality Assessment Process Map for a self-assessment with independent validation indicating the division of work between the internal audit activity and the independent external assessor or assessment team is shown on page 62. Note that conducting surveys and scheduling interviews requires close coordination between the internal audit activity and the external independent assessor.



# QUALITY ASSESSMENT PROCESS MAP

## Self-Assessment with Independent Validation

