

Frequently Asked Question

Briefing from the Internal Audit Standards Advisory Board

Can my external auditor act as the Quality Assurance and Improvement Programme external assessor?

Some organisations have asked whether their external auditor(s) can be appointed as the independent assessor or assessment team to carry out the external assessments that are required under the UK PSIAS at least once every five years.

What do the Standards say?

From Standards 1300 Quality Assurance and Improvement Programme and 1312 External Assessments it can be taken that the external assessor or assessment team must be able to:

- evaluate whether the internal audit activity conforms with the Definition of Internal Auditing and the Standards and whether internal auditors apply the Code of Ethics;
- demonstrate that they are suitably qualified and independent (i.e. their competence) in two areas:
 - the professional practice of internal auditing
 - and the external assessment process

through a mixture of experience and theoretical learning.

It is also clear that:

- not all members of an assessment team need to have all the competencies as it is the team as a whole that is qualified;
- experience gained in organisations of similar size and complexity and in the public sector is more valuable.

It should also be noted that Standard 1311 Internal Assessments states that internal assessors must have sufficient knowledge of internal audit practices and that this requires “at least an understanding of all elements of the International Professional Practices Framework”.

When the chief audit executive considers the independence of the external assessor or assessment team, he/she should pay specific attention to IIA Practice Advisory 1312-1 External Assessments. Section five sets out particular matters relating to independence that need to be taken into account and this includes:

- any real or apparent conflict of interest of firms that provide:
 - The external audit of financial statements.
 - Significant consulting services in the areas of governance, risk management, financial reporting, internal control, and other related areas.
 - Assistance to the internal audit activity. The significance and amount of work performed by the professional service provider is to be considered in the deliberation.

It may be that, in considering these matters, the CAE concludes that they are mitigated and accepted by the organisation whose internal audit activity is the subject of the external assessment.

Other issues that need to be contemplated when considering the external auditor(s) for the external assessor or assessment team include:

- The extent of the overlap, if any, between internal and external audit, i.e. any work delegated between them
- Ensuring that the scope of the external quality assessment fits with that required by the PSIAS and has not been drawn up mainly for the purposes of the external auditor(s).

IASAB Conclusion

It is the responsibility of the organisation whose internal audit activity is being assessed to decide whether their external auditor(s) can be appointed as the assessor or assessment team undertaking external assessments in accordance with the PSIAS. However there are two main areas that should be considered when evaluating whether the external auditor(s) is best placed to carry out the assessment.

Firstly, the external auditor must be able to satisfy the requirements set out in 1312 for external assessors: i.e. he/she would have to demonstrate their experience as theoretical learning in the professional practice of internal auditing as well as the external assessment process.

Secondly, if the external auditor can evidence that they are suitably qualified, their independence must be considered carefully. This is also the case where a separate person from the same professional firm is proposed to be the assessor/assessment team.

Only if the organisation and sponsor are satisfied with both the competence and the independence of the external auditor(s) in undertaking this role can the external auditor be deemed as eligible to act as the Quality Assurance and Improvement Programme external assessor.