



AUDIT EXECUTIVE CENTER KNOWLEDGE BRIEF

# SMALL AUDIT FUNCTION SUCCESS

Strategies for implementing Quality Assurance and Improvement Programs



AUDIT EXECUTIVE  
CENTER

# Table of Contents

---

<b>Introduction</b> .....	<b>1</b>
<b>The need for conformance</b> .....	<b>3</b>
<b>External assessment approach</b> .....	<b>5</b>
<b>Choosing the assessor</b> .....	<b>6</b>
<b>Stories of success</b> .....	<b>8</b>
<b>Conclusion</b> .....	<b>13</b>

---

# INTRODUCTION

---

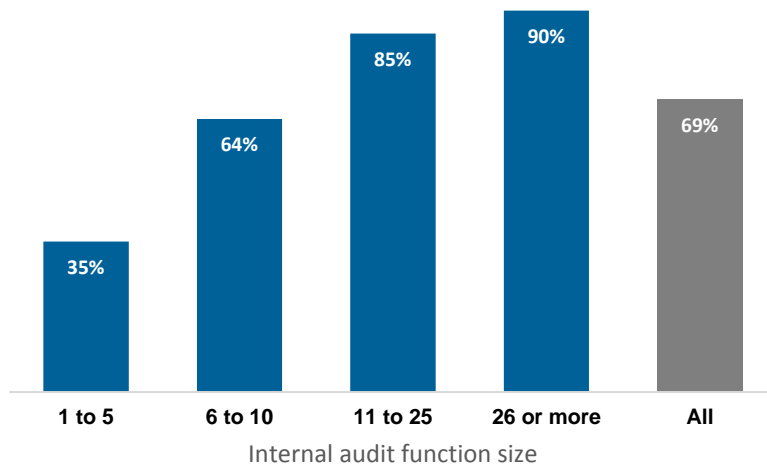
## Conformance is within reach

**Many CAEs of small audit functions** have demonstrated that achieving and maintaining conformance to the *International Standards for the Professional Practice of Internal Auditing (Standards)* is within reach, but they must make efforts to overcome their unique obstacles.

According to a recent peer request published by AEC, 69 percent of CAEs say their functions fully conform to *Standards*.<sup>1</sup> However, a significant difference was observed by internal audit function size: 90 percent of the CAEs from the largest functions indicated conformance, compared to only 35 percent from the smallest functions (Exhibit 1). Clearly, there are challenges for small functions that must be addressed.

This knowledge brief provides lessons and strategies from CAEs of small internal audit functions who are successfully conforming to the *Standards*. Profiles of success are included from the CAEs at Harley-Davidson, Morningstar, Government of Northwest Territories of Canada, and Saint Leo University.

**Exhibit 1: Full Conformance with the *Standards***



---

<sup>1</sup> This Peer Request survey in March 2019 had 154 respondents. For the full report, see the Peer Request titled Quality Programs and Cost, available exclusively to AEC members at [www.theiia.org/AEC](http://www.theiia.org/AEC).

## External assessment challenges

For many, the biggest challenge for *Standards* conformance is the external assessment requirement. Eighty-five percent of the CAEs from the smallest internal audit functions indicated that they have significant obstacles to conducting an external assessment as required by Standard 1312 – External Assessments.

Among peer request respondents, the most frequently cited obstacles related to external assessments were:

- Lack of perceived benefit compared to cost (60 percent).
- Not enough people on the internal audit staff to handle the extra work (30 percent).
- Disruption to internal audit function (21 percent).
- Too time-consuming (21 percent).

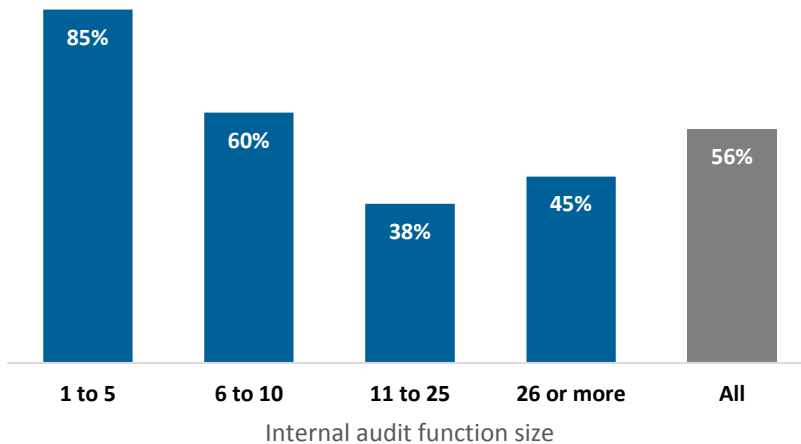
## Audit Focus

### 1312: External Assessments

**External assessments must be conducted at least once every five years by a qualified independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:**

- **The form and frequency of external assessments.**
- **The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.**

**Exhibit 2: Experiencing Significant Obstacles to External Assessment**



# THE NEED FOR CONFORMANCE

## The value of an independent assessor

---

### Internal audit must “walk the walk”

#### As noted in the Introduction to the *Standards*:

“While differences may affect the practice of internal auditing in each environment, conformance with The IIA’s *International Standards for the Professional Practice of Internal Auditing (Standards)* is essential in meeting the responsibilities of internal auditors and the internal audit activity.” The *Standards* provide a framework for performing and promoting a broad range of value-added internal auditing services, establish the basis for the evaluation of internal audit performance, and foster improved organizational processes and operations.

With regards to the external assessment requirements, CAEs must be willing to demonstrate to stakeholders that they are willing to “walk the walk” by having their processes reviewed by an independent assessor— or else take on a significant amount of reputational risk.

### Principles-based *Standards*

One of the most important things that CAEs of small internal audit functions should remember is that the *Standards* are principles based. The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organization to organization, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit’s mission.

### Getting stakeholder buy-in

One of the most common reasons that small audit function CAEs cite for not fully conforming to the *Standards* is the perceived lack of benefit that they would receive for their cost and effort. Too often CAEs believe that if their stakeholders aren’t asking for evidence that they are conforming to the *Standards*, then there is no reason to

#### Core Principles

- **Demonstrates integrity.**
- **Demonstrates competence and due professional care.**
- **Is objective and free from undue influence (independent).**
- **Aligns with the strategies, objectives, and risks of the organization.**
- **Is appropriately positioned and adequately resourced.**
- **Demonstrates quality and continuous improvement.**
- **Communicates effectively.**
- **Provides risk-based assurance.**
- **Is insightful, proactive, and future-focused.**
- **Promotes organizational improvement.**

make the effort to conform and incur the cost of an external assessment.

However, the reality is that many audit committee members and C-suite professionals are not aware of the requirements in the *Standards* and the value that a quality, optimally-performing internal audit function provides. For CAEs whose stakeholders are either not aware of the *Standards* or do not see value in them, it is incumbent on CAEs to demonstrate that value and educate stakeholders on the need to conform, including an external assessment.

Internal auditors spend their days reviewing and assessing the processes of other professionals. To the extent that CAEs have the courage to have their processes reviewed and assessed, they are on stronger footing within their organization. CAEs, particularly those in smaller organizations, cite the ability to hold the results of their own assessment up to colleagues as evidence that they are willing to walk the walk and have their own processes reviewed by independent and objective professionals.

## Getting started

Internal auditors' knowledge of strong business processes make them inherently qualified to establish policies, procedures, and documentation requirements related to their own functions. What's more, "The Quality Assessment Manual for the Internal Audit Activity" published by the Internal Audit Foundation is an invaluable resource.

CAEs whose small audit functions conform to the *Standards* routinely say that one of the first actions they take when they assume the role of CAE for an organization is to establish an internal audit manual for the department. Just as practices will differ between internal audit functions, so too should the manuals differ. Use of "Essentials, 2<sup>nd</sup> Edition" edited by Archie R. Thomas, CIA, is a great resource for developing or updating the internal audit manual.

The key is for CAEs to ensure that while the engagements they conduct may differ, the expectations they set for process quality remain consistent. This may consist of ensuring standardized templates, checklists, and reports are developed and utilized. In driving a consistent and repeatable approach, the CAE should be able to drive significant process efficiencies, as non-value added time developing new deliverables with each engagement can be eliminated.

## Supervising the work

Standard 2340 — Engagement Supervision which requires engagements be properly supervised is one of the shortest but most fundamental standards. Despite its importance and brevity, this standard can cause some of the greatest heartache for CAEs of smallest audit functions. Because those CAEs do not have many layers in their organization chart, they may be concerned that they won't be able to provide timely reviews.

### Audit Focus

#### 2340: Engagement Supervision

**Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.**

Further, because CAEs of the smallest internal audit functions often perform original audit work, they assume that there is nobody to review their work and therefore they cannot conform to the *Standards*. However, this is not necessarily the case. While the *Standards* require that engagements be properly supervised, they do not dictate how that supervision must be conducted.

# EXTERNAL ASSESSMENT APPROACH

Two options offer flexibility

---

## Balancing time, costs, and collateral benefits

**The Interpretation of Standard 1312 recognizes** that, “external assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation (SAIV).” A CAE, particularly one with a smaller function and, presumably, smaller budget, should give careful thought to considering each approach. A number of factors should be considered when electing an external assessment approach, including, but not limited to cost.

## Self-assessment with independent validation

In almost all circumstances, the SAIV approach will result in a lower cost. In the SAIV approach the internal audit function under review is expected to essentially perform its own review. As the name implies, in the SAIV approach the independent assessor is expected to validate the work performed by the internal audit function. As such, the required effort by the assessor is more limited, and therefore the fees are typically significantly less.

An added benefit that many CAEs recognize utilizing the SAIV approach is the learning opportunities that can be achieved by performing their own self-assessment. By going through the process of objectively reviewing the design and operating effectiveness of their own processes against the *Standards*, CAEs are able to better understand their own opportunities for improvement. Further, to the extent that a CAE of a smaller function is able to delegate the responsibility to subordinates, it also provides an opportunity for less experienced auditors to understand the *Standards* and their own function’s strengths and weaknesses.

## Full external assessment

Proponents of utilizing the full external assessment approach are comfortable making the trade-off between cost and time investment. While a full external assessment is likely to require additional effort by the assessor, and therefore higher professional fees, the investment of time by the CAE and internal auditors should be lower. Numerous CAEs of smaller audit functions do not believe they have the time to spend to perform a formal documented self-assessment given their limited personnel resources. CAEs who have received full external assessments note, however, that if consistent processes are in place and adhered to, the level of staff effort required for a full external assessment is minimal.

Further, some CAEs take the position that they get more out of a full external assessment. Because the assessor is doing all of her/his own original work, the assessor may be able to provide a consistently high level of objectivity. In addition, an external assessor, depending upon their breadth of experience, may be able to provide objective perspectives above and beyond the level of conformance with the *Standards*. An external assessor may be asked to provide external benchmarking and/or share best practices from work with other clients.

# CHOOSING THE ASSESSOR

## Service provider, specialist, or peer?

---

### Selection strategy must include stakeholder input

Once the CAE has made the commitment and received a buy-in from their stakeholders to have an external assessment performed, regardless of whether it will be a full external assessment or just the independent validation of a self-assessment, the next key decision is choosing the assessor. First and foremost, selecting the assessor should start with a strategic decision as to what the CAE and his or her stakeholders expect of the assessor and the amount of money the organization is willing to spend.

### Large service providers

Most of the large national and global service providers perform external assessments. They tend to be on the higher end of the price spectrum primarily because they aim to deliver additional added-value services. Large service providers, in addition to an opinion on the level of conformance to the *Standards*, will utilize its breadth of experiences and client base to provide additional value to the CAE. This additional value may come in the form of best practices guidance and/or benchmarking.

A CAE of a smaller audit function with limited resources may feel sticker shock with the quotes that they receive from a service provider. However, this additional insight may be particularly valuable in identifying strategies to better utilize those limited resources.

### Quality assessment specialists

CAEs looking to receive an external assessment from an experienced Certified Internal Auditor (CIA) may elect to engage a quality assessment specialist. There are numerous individuals working either as sole practitioners or through firms that specialize in quality assessments and other related internal audit consulting services. In fact, specialists can be hired through IIA Quality Services, which leverages internal talent and experienced independent contractors to provide independent and objective quality assessments.

The benefit of hiring a quality assessment specialist is that for a reasonable fee, a small function CAE can hire a professional experienced in internal auditing to perform the assessment. Of course, the CAE should ensure that expectations are established if they expect significant services or deliverables beyond the basic assessment.

When selecting an assessor, the CAE should ensure that he or she is not only experienced in performing quality assessments, but also understands the organization's business sector or specific area of operation. For example, a small function within a specialized industry should ensure that the assessor selected is familiar with the industry and with the operations of a smaller audit function.



## Peer to peer

CAEs looking to minimize their cost may elect to try and identify a peer to perform their external assessment for limited or no professional fees. While independence principles would not allow a reciprocal arrangement between CAEs, some CAEs have found creative ways of working collaboratively to ensure that multiple functions get an external assessment performed for limited cost, such as a three-way “round robin” type of arrangement. Other CAEs, especially those in non-profit industries, may elect to leverage their network of peers developed through industry associations to identify assessors or even volunteer to be assessors themselves. Often, the cost of these types of assessment arrangements is limited to the reimbursement of travel costs.

In addition to saving costs, CAEs may benefit greatly by the opportunity to learn from one another. In these types of arrangements, CAEs may not receive formal best practice guidance or benchmarking from their assessor. However, the ability to network with the peers who perform their assessments and/or for whom they perform an assessment may prove equally valuable.

# SUCCESS STORIES

## Lessons learned from conforming small function CAEs

---

### Standards establish credibility

**Rob Gould has been the Director of Internal Audit at Harley-Davidson Inc.** since 2003, and was the first Chief Audit Executive for the iconic motorcycle manufacturer. Rob reports functionally to the Chairman of Harley-Davidson's Audit and Finance committee and administratively to the CFO.

Rob has an experienced team following a well-developed audit process, allowing them to be efficient and provide appropriate audit coverage, despite having a relatively small team of 10, including Rob. To supplement his team, he utilizes co-sourced resources, particularly to assist with IT auditing and for international locations for language skills. However, limitations related to the size of his department has never held Rob back from ensuring that his team conforms to the *Standards*.



**Rob Gould, Director of Internal Audit, Harley-Davidson Inc.**

Rob notes that conforming to the *Standards* was “made a priority from the get go to establish credibility of the internal audit department.” He advises CAEs of other small internal audit functions to “make a personal commitment” and “treat the job as a professional role and demand excellence.”

Although Rob does not see any unique challenges with conforming to the *Standards* for smaller audit functions, he does recommend a practice that his team has implemented where auditors at multiple levels perform critical reviews of all audit reports on a monthly basis using pre-established checklists. By doing these departmental reviews, the team learns from each other and collectively ensures that team members are adhering to procedures set forth in the department's audit manuals.

Rob's team received their most recent External Quality Assessment (EQA) about a year ago. The most recent EQA, which was the third Rob has overseen since starting the internal audit function 16 years ago, was performed as a full external review. Whereas some CAEs of smaller internal audit functions have elected to achieve their assessment via SAIV, as allowed by the *Standards*, to minimize the cost, Rob has consistently elected to have a full external review performed by an independent assessor. In Rob's case he leveraged the IIA Quality Services team to perform his review.

While Rob recognizes that doing a full external review may cost a bit more, he believes that he is able to get more comprehensive coverage and objectivity. Further, he believes it is less time consuming for his team. He notes that between his first and second assessment, the team worked on improvement opportunities noted in the assessment. Between the second and third assessments, the team focused on making governance related improvements. Rob believes that there will always be opportunities to improve and that ensuring that he is in conformance with the *Standards* and regularly getting an external assessment helps in the process to identify and make improvements.

## Strong internal processes make conformance easier

**Greg Kalin is the Chief Audit Executive and Director of Internal Audit at Morningstar Inc.** He was hired as the CAE by Morningstar in 2010, where he reports functionally to the Chairman of the Audit Committee of the Board of Directors and administratively to Morningstar's Chief Financial Officer. Morningstar is a leading provider of independent investment research to investors globally.

Chief among Greg's accomplishments in his nine years at Morningstar are transforming a compliance-only internal audit function to a risk-based, operational internal audit function that conforms to the *Standards*. Previously, Greg served in a similar capacity at Hayes Lemmerz International for nearly seven years.

In addition to his roles as a CAE, Greg has also served a term as a member of the IIA's International Internal Audit Standards Board during its most recent review and revision of the *Standards*, which was released in 2017.

Although Greg's internal audit department is relatively small, with a current operating staff of seven and a budget for 10, he said he is committed to continuing to conform to the *Standards*. Further, he sees it as easy to maintain conformance, even when understaffed, due to the work that he and his team have put in to have strong and consistent internal processes.

Greg shares that when he joined Morningstar, the internal audit department was doing work only on Sarbanes-Oxley-related compliance issues and didn't have strong internal processes in place. Greg further shares that it took his team about four years to develop standardized reports, audit procedures, and a comprehensive audit manual. While developing standard processes and an audit manual may seem like a daunting task, Greg states, "Break it into pieces and it isn't that difficult."

While the initial development of an audit manual was a great start, Greg remembers that it is important to update it regularly for changes and improvements that may occur. Once in place, the audit manual assists with demonstrating conformance for his external quality assessments, the most recent of which was completed in 2016. It also is a great tool to leverage when onboarding new team members.

Greg has also developed a Quality Assurance and Improvement Program Balanced Scorecard. The balanced scorecard, which Greg presents to the Audit Committee each year, attests to his continued conformance with the *Standards* and breaks down into three areas — Governance, Communications, and Professional Practices. The Balanced Scorecard allows Greg to demonstrate to the Morningstar Audit Committee the value



**Greg Kalin, Chief Audit Executive and Director of Internal Audit, Morningstar Inc.**

of conforming to a recognized set of standards. In addition, in his report to the Audit Committee Greg leverages the IIA's Audit Intelligence Suite to provide a comparison of his internal audit department to similar organizations. Greg notes that, after several years, his audit committee "expects it now. They also like the internal assessment. If I didn't do it, they would ask why."

All in all, Greg notes that his efforts to evolve Morningstar's internal audit function into one that is risk-based and conforms to the *Standards* is not lost on his management stakeholders. He notes that his management team recognizes that "it is important and is supported in hours and budget and they have never pushed back."

## Internal audit must "walk the walk"

**T. Bob Shahi has been the Internal Audit Bureau Director for the Government of Northwest Territories of Canada** (NWT) for almost 16 years. Upon assuming the role of Chief Audit Executive for the government of the NWT in 2003, Bob had already worked for 16 years on the staff after joining the team in 1987. The NWT internal audit team is located in the city of Yellowknife. With a population of about 20,000, Yellowknife is the capital of the NWT, as well as its only city.

Despite having responsibility for the internal audits of an entire NWT jurisdiction, Bob has a relatively small team of six. In fact, Bob's team has lost positions in the past two years. Bob attributes the loss of head count to both budgetary constraints and the challenge in finding or attracting qualified team members in a small, remote location. Bob notes that Yellowknife is more than 1,400-miles from the closest major city, Edmonton, Alberta, which is an almost two-hour flight away.

Despite having a relatively small internal audit department, Bob is particularly proud of the fact that his was the first internal audit team of a Canadian public-sector jurisdiction to get an independent external quality assessment (EQA), and therefore fully comply with the *Standards*. Indeed, a number of Canadian public-sector jurisdictions still have not gotten their first external quality assessment.

But, during Bob's tenure his teams have gone far beyond just one EQA. Although it has been nearly five years since the NWT internal audit team got an external assessment, his team is currently in preparation for their fourth.

When asked why being in conformance with the *Standards* was so important to him, Bob noted simply, "What is good for my clients is good for me." His belief is that if the processes of his audit clients are worthy of review by an independent function, then it is only fair that his processes be subject to an independent review as well. He further noted that CAEs need to "walk the walk." CAEs are responsible for "providing assurance and need some assurance for yourself."

Bob's recommendation for other CAEs of small audit functions: "Roll up their sleeves and do more checking." His team relies upon a series of internally developed checklists and internal reviews to ensure that his work is done with independence and objectivity. He noted that team members need to be "wearing multiple hats."



**T. Bob Shahi, Internal Audit Bureau Director, Northwest Territories of Canada**

The “Quality Assessment Manual” published by The IIA is an excellent resource for any audit function developing and maintaining a quality control program.

Bob also believes that while he doesn’t have the budget to do an external assessment more often than is required per the *Standards*, five years is a long time between assessments. Thus, his team does a self-assessment each year. Further, exemplifying the thought processes that what is good for his audit clients is good for him, Bob reports the results of his self-assessments, including the improvements made as a result of recommendations provided to him, to the external assessors. Essentially, he treats them like an audit, where providing proper follow up is part of a strong audit process.

## Get over the fear

**Monica Moyer is the Director of Internal Audit at Saint Leo University.** Hired in late 2008, she was brought in to serve as the university’s first Chief Audit Executive (CAE) and to create the institution’s internal audit function. Saint Leo University is the oldest Catholic institution of higher education in Florida and one of the top universities in Central Florida. The liberal arts campus — located 30 miles north of Tampa — educates just over 2,200 students. Total enrollment across the university’s 35 Central Florida locations and online programs is nearly 15,000.



**Monica Moyer, Director of Internal Audit,  
Saint Leo University**

When she started at Saint Leo, Monica was a one-woman internal audit function, reporting functionally to the Audit Committee of the Board of Trustees and administratively to the President of the University. After the first couple of years, she was able to double the size of the university’s internal audit function by adding a second team member. Despite having limited resources at her disposal, Monica has been committed to ensuring that the internal audit function at Saint Leo demonstrates their capability and professionalism through conformance with the *Standards*.

Conforming to the *Standards* was important to Monica from the moment she was hired. Being in an academic environment, she realized that it was normal within the culture of the organization to have assessments performed from outside the university. In addition to having an external audit of their financial statements, the university gets regular audits to receive federal and state grants. Further, outside organizations regularly perform assessments for the university to maintain its academic accreditation. However, as she approached her fifth year at Saint Leo, Monica realized that it was soon going to be time to obtain an external assessment.

“I had a lot of fear going into my first independent validation, I mean a tremendous amount of fear,” Monica noted. “I ordered the manual and took a class, but I was still in fear. And finally, it was a colleague of mine, who I trust a great deal, who said, ‘Monica, You’re probably not in that bad of shape. You are really just functioning from a place of fear more than anything else. Why don’t you just do the self-assessment and see where you are?’”

So Monica pushed through her fear. “I did the assessment,” she noted, “and the best thing is, you’re always your own worst critic.” She identified and made six recommendations to herself to improve and then shared the results of the self-assessment, along with her recommendations, with her audit committee.

Regarding the decision as to whether to seek a full external review or to perform a self-assessment with independent validation, Monica has been committed to leveraging the work of her self-assessments.

“It was at that time that I realized how much the department learns from going through that exercise,” she said. “And, it was definitely a decision with regard to cost.”

In recent years, Monica’s team has been able to expand by an additional headcount, so they are now a team of three. Further, they have committed to maintaining a strong Quality Assurance and Improvement Program. She noted that, “Part of our Quality Assurance and Improvement program is performing a self-assessment every 2.5 years as sort-of a touch base to be sure that we haven’t gotten lax on anything, with every other self-assessment being external validated by an independent assessor.” As an additional benefit of performing a formal self-assessment frequently, Monica added, “It’s a great training opportunity for my staff auditors.”

When asked about the unique challenges of conforming to the *Standards* for a small audit function, Monica noted, “I believe, whether you are a small or large function, you always have to make concessions and adjustments, for the culture of your own organization and how audit can best fit and provide value to the organization.” She further noted, “Start by documenting processes and keep them up to date.”

Regarding the other benefits of conforming to the *Standards* and receiving a generally conforms opinion by an independent assessor, Monica noted, “It lets me say that this organization has a professionally run internal audit department that can generally conform to standards in higher education.”

# CONCLUSION

---

## Small audit function conformance *is* achievable

**Nahiro Mouri, the 2018-2019 IIA Global Chairman of the Board** states in his Chairman's video, "Without standards, how do you practice at the level that brings value and builds your reputation as a trusted advisor? Quite simply, you don't". The *Standards* are principles based and are equally relevant for smaller organizations with smaller internal audit functions as they are for large complex multinational organizations whose audit functions could fill a ballroom.

However, survey data suggests that levels of conformance to the *Standards* amongst smaller audit functions is much lower than amongst midsize and larger functions. As this knowledge brief demonstrates, conformance to the *Standards* is not out of reach for CAEs regardless of their function's size. However, those CAEs need to be diligent in developing consistent practices for their teams, demonstrating the value of conforming to the *Standards* to their stakeholders and making informed strategic decisions about how they want to conform.

### ABOUT THE AUDIT EXECUTIVE CENTER

The IIA's Audit Executive Center® (AEC®) is the essential resource to empower CAEs to be more successful. The Center's suite of information, products, and services enables CAEs to respond to the unique challenges and emerging risks of the profession. This report is reserved for your exclusive use as a member of the Audit Executive Center. For more information on the Center, visit [www.theiia.org/AEC](http://www.theiia.org/AEC).

### ABOUT THE IIA

The Institute of Internal Auditors (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 200,000 members from more than 170 countries and territories. The association's global headquarters are in Lake Mary, Fla. For more information, visit [www.theiia.org](http://www.theiia.org).

### DISCLAIMER

The AEC and The IIA publish this document for informational and educational purposes. This 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 AEC and The IIA recommend that you always seek independent expert advice relating directly to any specific situation. The AEC and The IIA accept no responsibility for anyone placing sole reliance on this material.

### COPYRIGHT

Copyright © 2019 The Institute of Internal Auditors, Inc. All rights reserved. For permission to reproduce, please contact [copyright@theiia.org](mailto:copyright@theiia.org).

May 2019

**Global Headquarters**  
The Institute of Internal Auditors  
1035 Greenwood Blvd., Suite 401  
Lake Mary, FL 32746 USA  
Phone: +1-407-937-1223  
Fax: +1-407-937-1108  
[www.theiia.org/AEC](http://www.theiia.org/AEC)