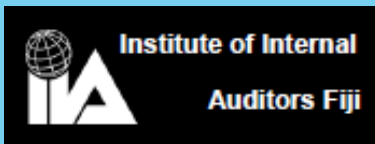


Asian Development Bank's Internal Audit Quality Assurance and Improvement Program

Institute of Internal Auditors Fiji
2014 Annual Conference



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Outline

- ❖ Overview of:
 - Asian Development Bank
 - Office of the Auditor General
- ❖ IIA Quality Assessment Standards
- ❖ OAG's Quality Assurance & Improvement Program
 - Full External Quality Assessment in 2011
 - Guest Internal Auditor Program
 - OAG Alumni Network
- ❖ QAG 2014 Benchmarking Exercise with Other Development Institutions



Asian Development Bank



An Asia and Pacific region
free of poverty



To help its developing members
reduce poverty and improve
their living conditions and
quality of life

- ❖ Pacific Subregional Office – Suva
- ❖ www.adb.org

Office of the Auditor General (OAG)

What does OAG do?

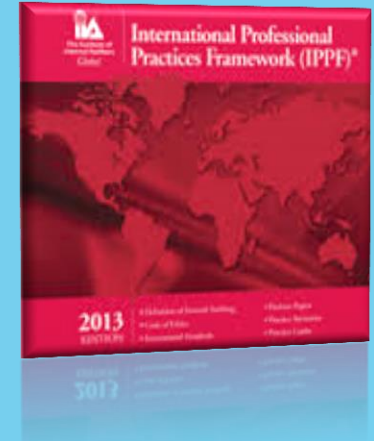


- Provides audit and advisory services
- Provides assurance to the President and the Audit Committee of the Board
- Conducts audits based on a risk analysis of ADB's audit universe

Overview of Quality Assessment

Quality Standards

- ❖ 1300 – Quality Assurance and Improvement Program (QAIP)
- ❖ 1310 – Quality Program Assessments
- ❖ 1311 – Internal Assessments
- ❖ 1312 – External Assessments
- ❖ 1320 – Reporting on the Quality Program
- ❖ 1321 – Use of “Conforms with the *Standards*”
- ❖ 1322 – Disclosure of Noncompliance



QAIP: Standard 1300

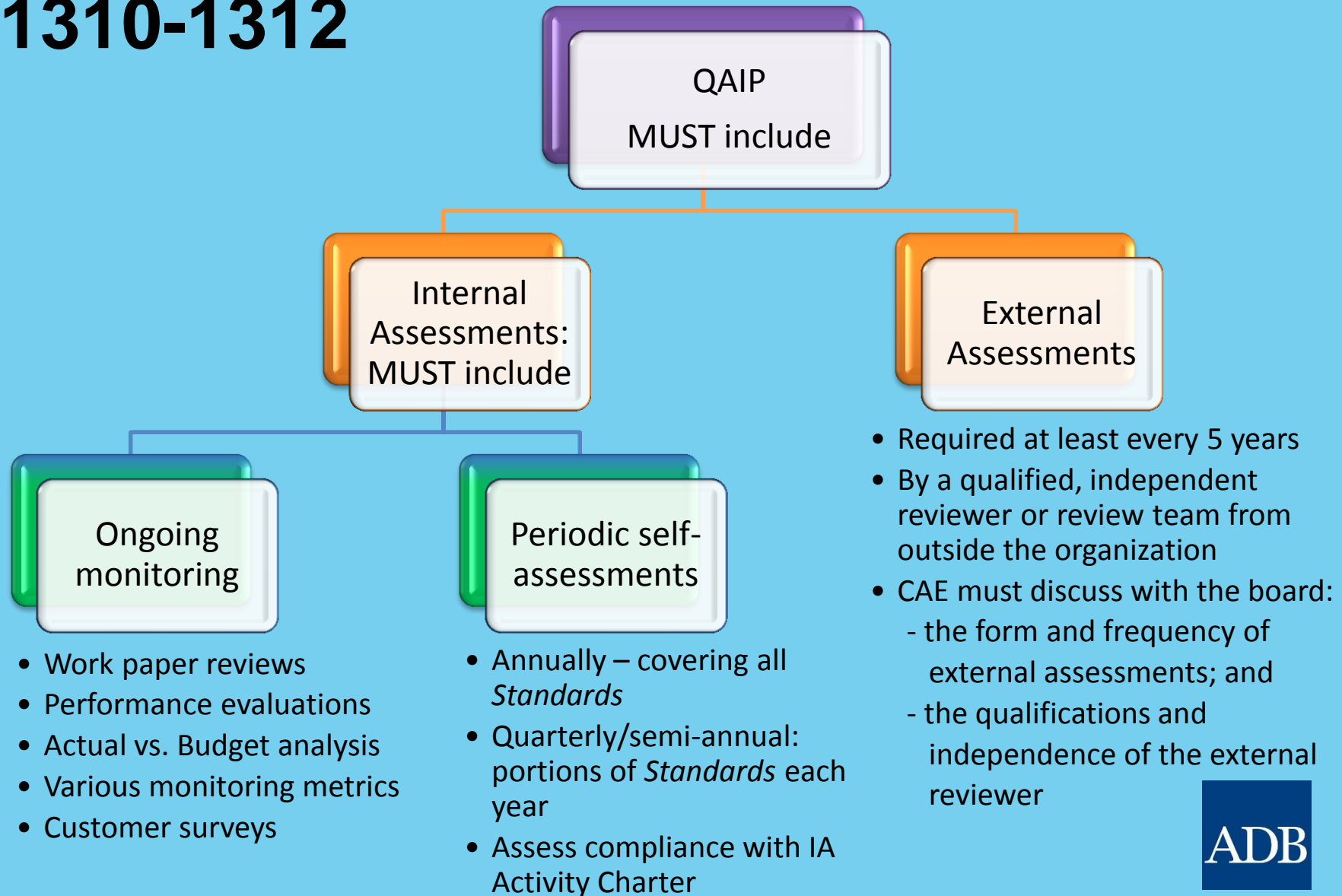
The chief audit executive must develop and maintain a quality assurance and improvement program

QAIP should cover all aspects of the IA activity (IAA)

Designed to evaluate IAA's conformance with the definition of Internal Auditing, the Standards, and internal auditors' conformance with Code of Ethics

Evaluates effectiveness and efficiency of IAA & recommends areas for improvement

QAIP Requirements: Standards 1310-1312



External Assessments: 2 Methods

1

- Full external quality assessment (Full EQAR) – the review & report will be done by an independent team

2

- Self assessment with independent external validation (SAIV)

External Quality Assessment Review

Conducted by a qualified, independent external reviewer or review team.

Involves an outside team of competent professionals under the leadership of an experienced and professional project manager.

Self Assessment with Independent Validation

IA activity conducts their own SA, determines compliance with the Standards and writes the report



IA activity then engages an independent Validator to review documentation and perform limited testing



Validator concurs with report or disagrees and issues own report (opinion)



Validator can be an external service provider or from a peer pool

Objectives of External Review

Provide an opinion on the internal audit activity's conformance to the spirit and intent of the Standards

Assess the efficiency & effectiveness of the IA activity in light of:

- (i) Its charter
- (ii) Expectations of the board, executive management, and the CAE

Identify opportunities and offer ideas to the CAE and staff for:

- Improving their performance
- Increasing the value they add to the organization

Reporting on QAIP: Standard 1320

CAE must communicate the QAIP results to senior management and the board

Timing of reporting

- **Upon completion**
 - External (full or independent validation)
 - Periodic internal assessments
- **At least annually**
 - Ongoing monitoring

3 Ratings: Conformance to Standards

Generally Conforms

- Is the top rating
- The IA activity has a charter, policies and processes that conform with the Standards & Code of Ethics
- There may still be opportunities for improvement

Partially Conforms

- Deficiencies in practice deviate from the Standards
- But these deficiencies did not preclude the IA activity from performing its responsibilities in an acceptable manner.

Does Not Conform

- Means deficiencies in practice are judged to be so significant
- As to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

OAG's QAIP

Milestone



May 2010:
Benchmarking
Exercise and
Realignment
Process

April 2011:
QAG formally
launched OAG's
QAIP and EQAR
Preparations

Nov 2011:
Full EQAR of OAG.
Overall rating –
OAG Generally
Conforms to the
Definition of IA, the
Standards, and the
Code of Ethics

2012 to 2014:

- QAG Internal Assessments
- Implementation status review of EQAR recommendations
- Continuing process enhancements/ initiatives



Quality Assurance Group

- ❖ Performs both:
 - ongoing monitoring; and
 - period review through self-assessment (SA)
- ❖ Consists of selected OAG auditors (5 to 7 persons)
- ❖ QAG requirements include:
 - (i) knowledge of the Standards
 - (ii) internal auditing skills
 - (iii) professional certification
- ❖ For periodic SAs, QAG may include CIAs or other competent audit individuals within ADB
- ❖ QAG team shall be rotated every 2 years

Ongoing Monitoring of OAG Activities

Quality Assessment of Engagement Supervision

- Adequacy of engagement planning
- Overall audit work program execution & performance
- Auditors' due professional care
- Adequacy of supervision and review
- Report preparation and cycle time

Compliance with Audit Policies, Procedures and Guidelines

Analysis of OAG's Quality Performance Indicators

- **OAG staffing & training**
- Annual work program deliverables
- Implementation of audit recommendations
- Client feedback, and
- Productivity measures

Areas Covered by Periodic Reviews

(i)

- OAG's conformity to the Standards and the IIA Code of Ethics

(ii)

- Whether OAG's actions are consistent with its charter and expectations of management and ACB

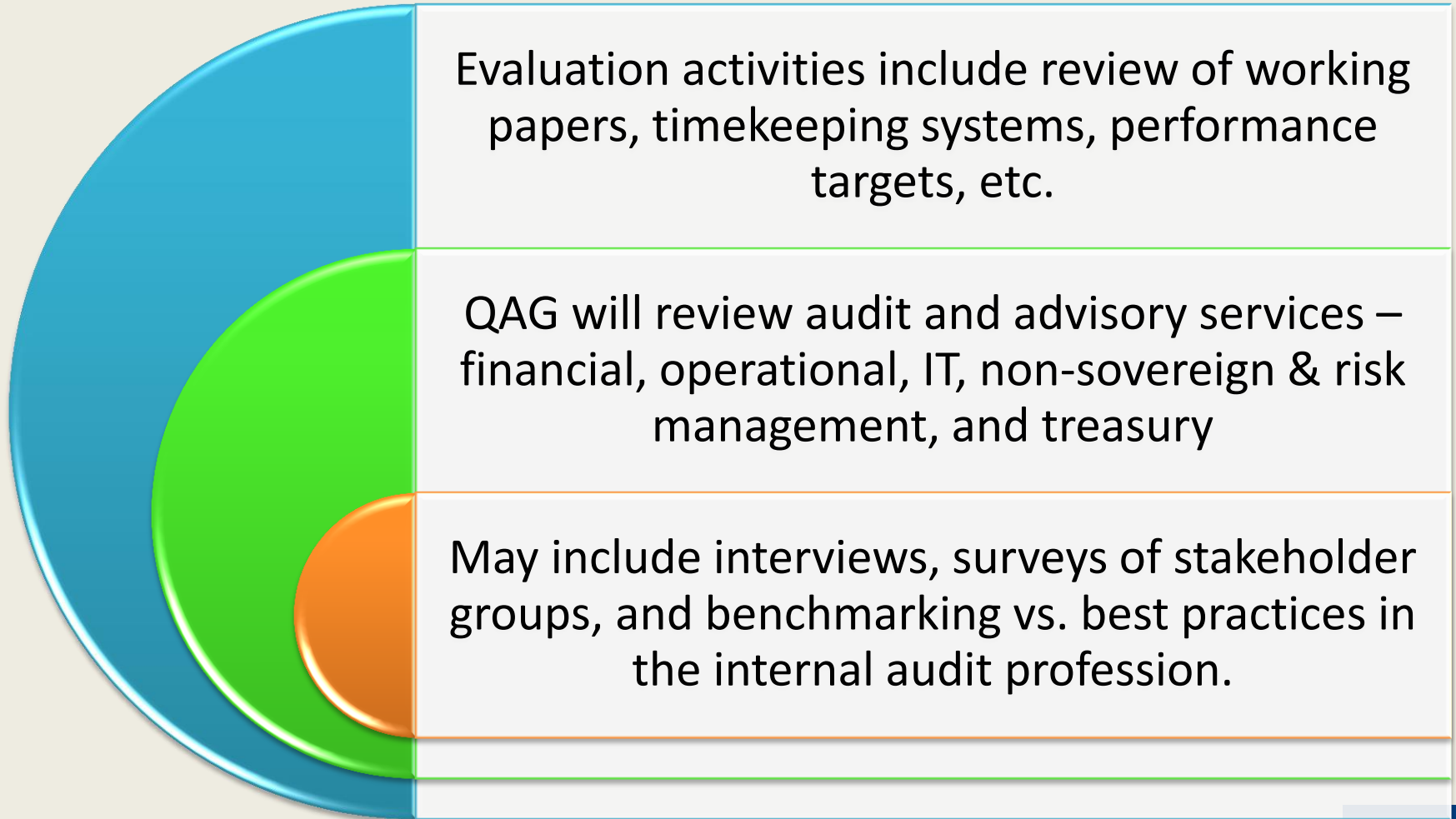
(iii)

- The level of audit effectiveness and efficiency of OAG, including achieving quality performance

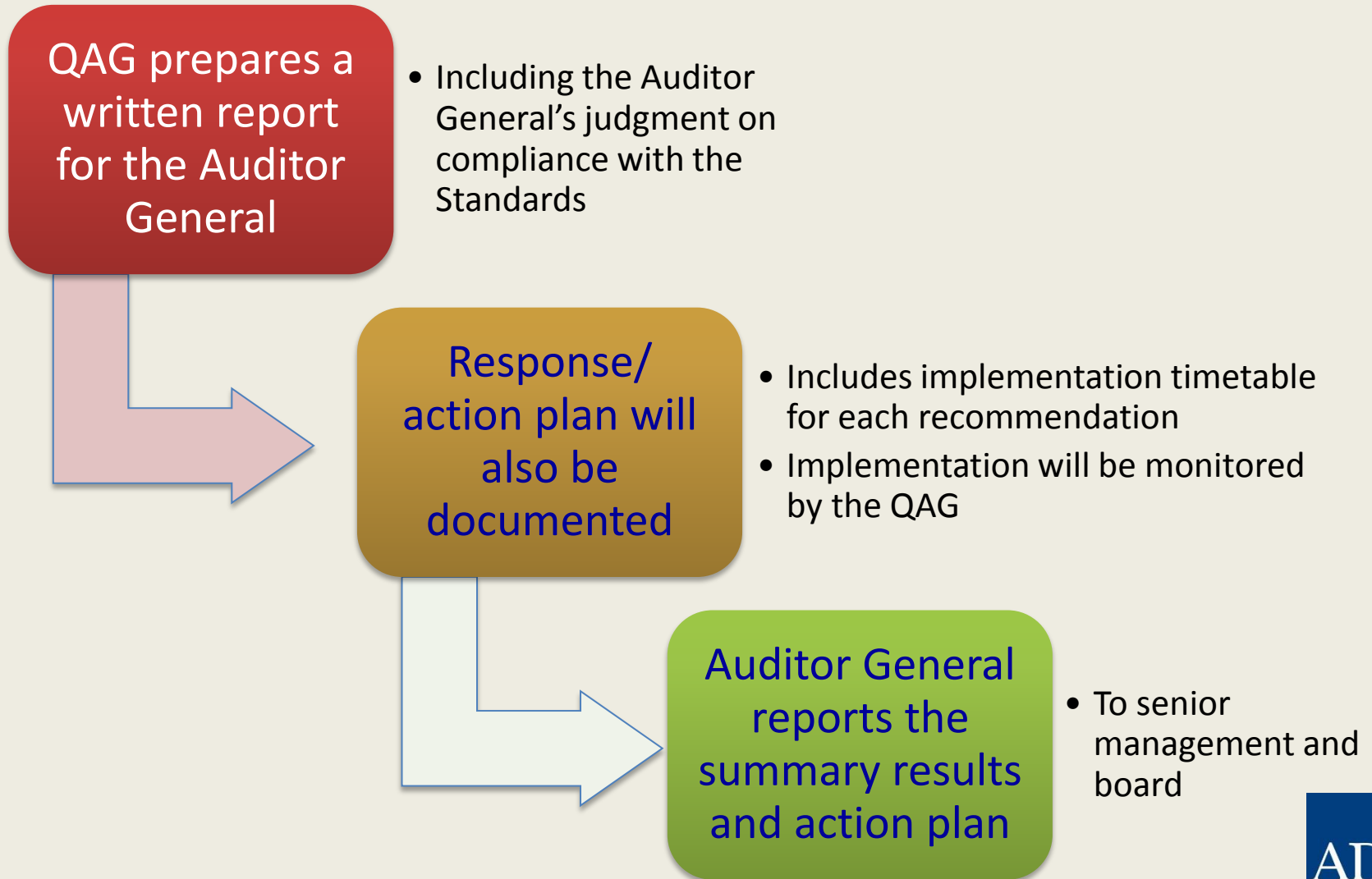
(iv)

- Whether audit and advisory services apply best practices and add value to the organization's business processes

Periodic Review Activities



Periodic Reviews through SA



OAG External Assessments

Will be conducted once every 5 years

Full external assessment

To be carried out by a qualified external reviewer/ review team

To be carried out by OAG reviewers and validated by a qualified external reviewer

SAIV

OAG will involve management & the ACB

In selecting the EQA reviewer

To various stakeholders – senior management, ACB, and external auditors

OAG will communicate the results

Opinion on OAG's compliance with the Standards

Including recommendations for improvement

Full EQAR Process (2011)

1

- Carried out an internal assessment & established a QA team

2

- CAE & QA team completed the QA self-study

3

- Submitted relevant IA documents & answered staff surveys

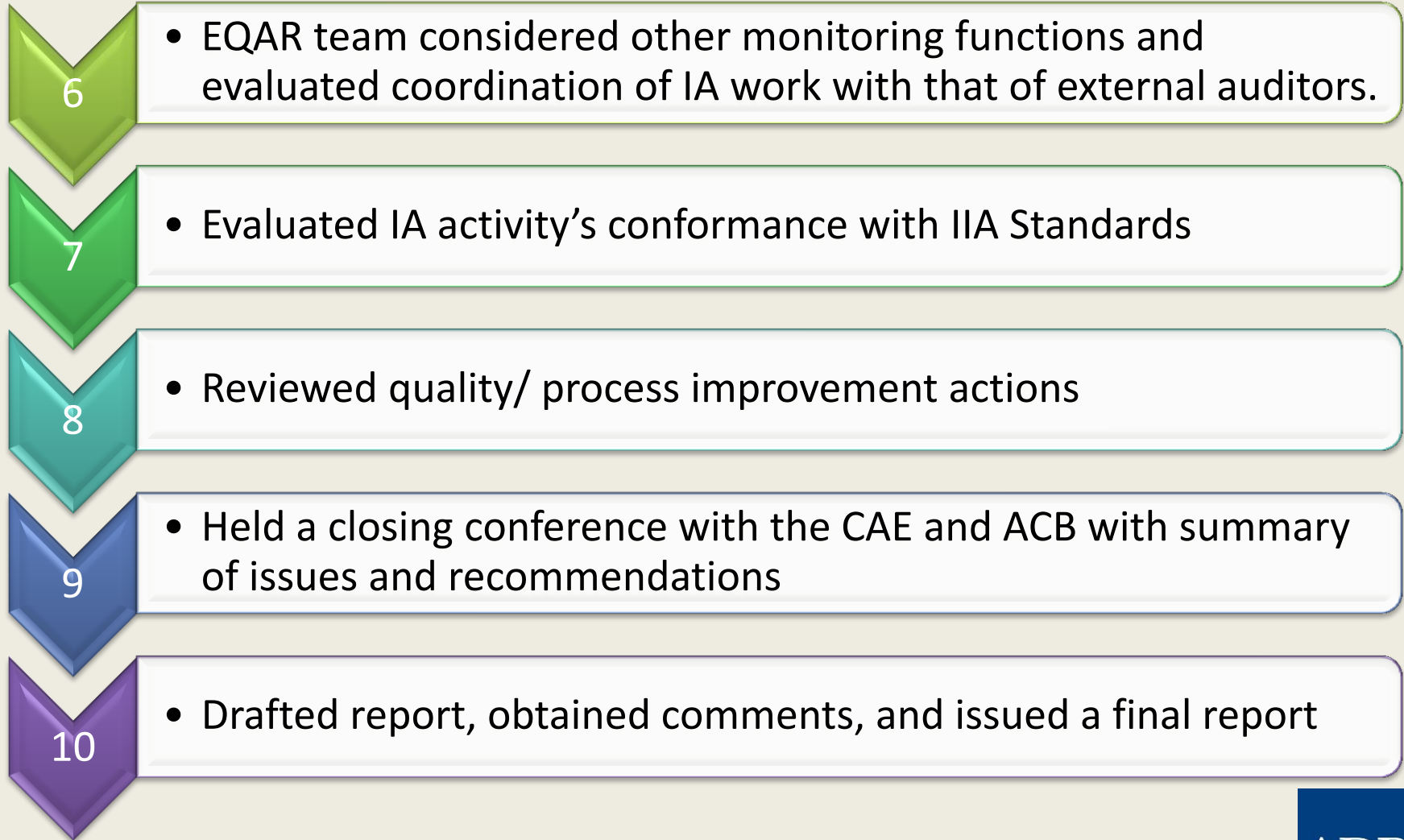
4

- On-site work by the EQAR team (1 week)

5

- EQAR team interviewed – selected members of the board, executive management, operating managers, internal audit staff

Full EQAR Process (2011)



2011 EQAR Rating of OAG



QUALITY
Ensuring Excellence

ATTACHMENT A Standards Conformance Evaluation Summary

ADB

	GC	PC	DNC
OVERALL EVALUATION	x		
ATTRIBUTE STANDARDS	x		
1000 Purpose, Authority, and Responsibility	x		
1010 Recognition of the Definition of Internal Auditing	x		
1100 Independence and Objectivity	x		
1110 Organizational Independence	x		
1111 Direct Interaction with the Board	x		
1120 Individual Objectivity	x		
1130 Impairments to Independence or Objectivity	x		
1200 Proficiency and Due Professional Care	x		
1210 Proficiency	x		
1220 Due Professional care	x		
1230 Continuing Professional Development	x		
1300 Quality Assurance and Improvement Program	x		
1310 Requirements of the Quality Assurance and Improvement Program	x		
1311 Internal Assessments	x		
1312 External Assessments	x		
1320 Reporting on the Quality Assurance and Improvement Program	x		
1321 Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	x		
1322 Disclosure of Nonconformance	x		
PERFORMANCE STANDARDS	x		
2000 Managing the Internal Audit Activity	x		
2010 Planning	x		
2020 Communication and Approval	x		
2030 Resource Management	x		
2040 Policies and Procedures	x		



What's the Guest Internal Auditor Program?

- ❑ Developed by OAG in 2013
- ❑ Brings in the right people and abilities to provide quality and value to OAG's function
- ❑ Significant commitment and investment in developing OAG staff skills set and competencies
- ❑ Complements OAG's Master Plan of Learning Needs

OAG Alumni Network



- ❑ About 50 members to date including 6 former Auditor Generals
- ❑ Access to wealth of experience, technical expertise, and best practices
- ❑ Promotes development of OAG through professional, educational, and social programs & events
- ❑ Enhances ADB's presence in local, national, and international internal auditing communities

QAG 2014 Benchmarking Exercise

Structuring QA Teams

	ADB	X	Y	Z
Number & Qualifications of QA group members	<ul style="list-style-type: none"> ▪ 5 ▪ Professional certification (i.e. CPA/CA, CIA, CISA) is required 	<ul style="list-style-type: none"> ▪ 2 ▪ CIA, CPA/CA, CISA qualifications encouraged 	<ul style="list-style-type: none"> ▪ 5 – QA is one of the core functions of the Professional Practices Group. ▪ Must be CIA 	No formal QA group.
Full time or part time?	Part time. Team lead and members rotating every 2 years	Full time	Full time – team lead Part time – members	Internal Assessment done by external firm
Scope of QA group	<ol style="list-style-type: none"> 1. Ongoing monitoring 2. Periodic Reviews through SA 3. Review closing of outstanding recommendations 	<p>100% coverage of all audits and involvement in all phases</p> <ul style="list-style-type: none"> ▪ Planning: engagement plan meeting ▪ Fieldwork: discussion of issues ▪ Reporting: draft to final 	<ol style="list-style-type: none"> 1. Annual macro risk assessment 2. Strategic planning 3. Resource allocation and planning 4. Audit methodologies 5. Quality Assurance 6. Key performance indicators 7. Client relations 	<ol style="list-style-type: none"> 1. Ongoing monitoring – by management and front office 2. Internal Assessment – by an external firm 3. External Assessment – by independent IIA reviewers

Structuring QA Teams

	ADB	X	Y	Z
Periodic Reviews/ Internal Assessment	Annual Self-Assessment by the QA Group	No annual self-assessment. The team believes that the ongoing monitoring is sufficient to prepare for the EQAR	Internal self-assessment not regularly done	Internal Assessment led by an external firm Internal assessment carried out in the 1 st and 3 rd quarters and results reported to the board during 2 nd and 4 th quarters
Audit reports reviewed in a year	Sampled: 7 full reports (out of 25 completed audits)	Full coverage: 30 audit reports	Sampled: 15 reports	Sampled: 10 -12 reports reviewed by an external firm
External Assessment	Full external assessment every 5 years – by IIA	<ul style="list-style-type: none"> • Full external assessment every 5 years - either by IIA or an independent reviewer • Self-assessment with independent validation done every 2 years 	<ul style="list-style-type: none"> • Full external assessment every 5 years <p>Plans to have a peer review with other MDBs instead of hiring an external party</p>	<ul style="list-style-type: none"> • Full external assessment ever 5 years – by IIA

Vinaka!

