



# QAR: Navigating the Process, Reaping the Benefits

Benchmark your organization against industry best practices.

By Michael Fabrizio, MBA, CIA, CPA, and J. Bailey Jordan, CIA, CISA, CRMA, CPA

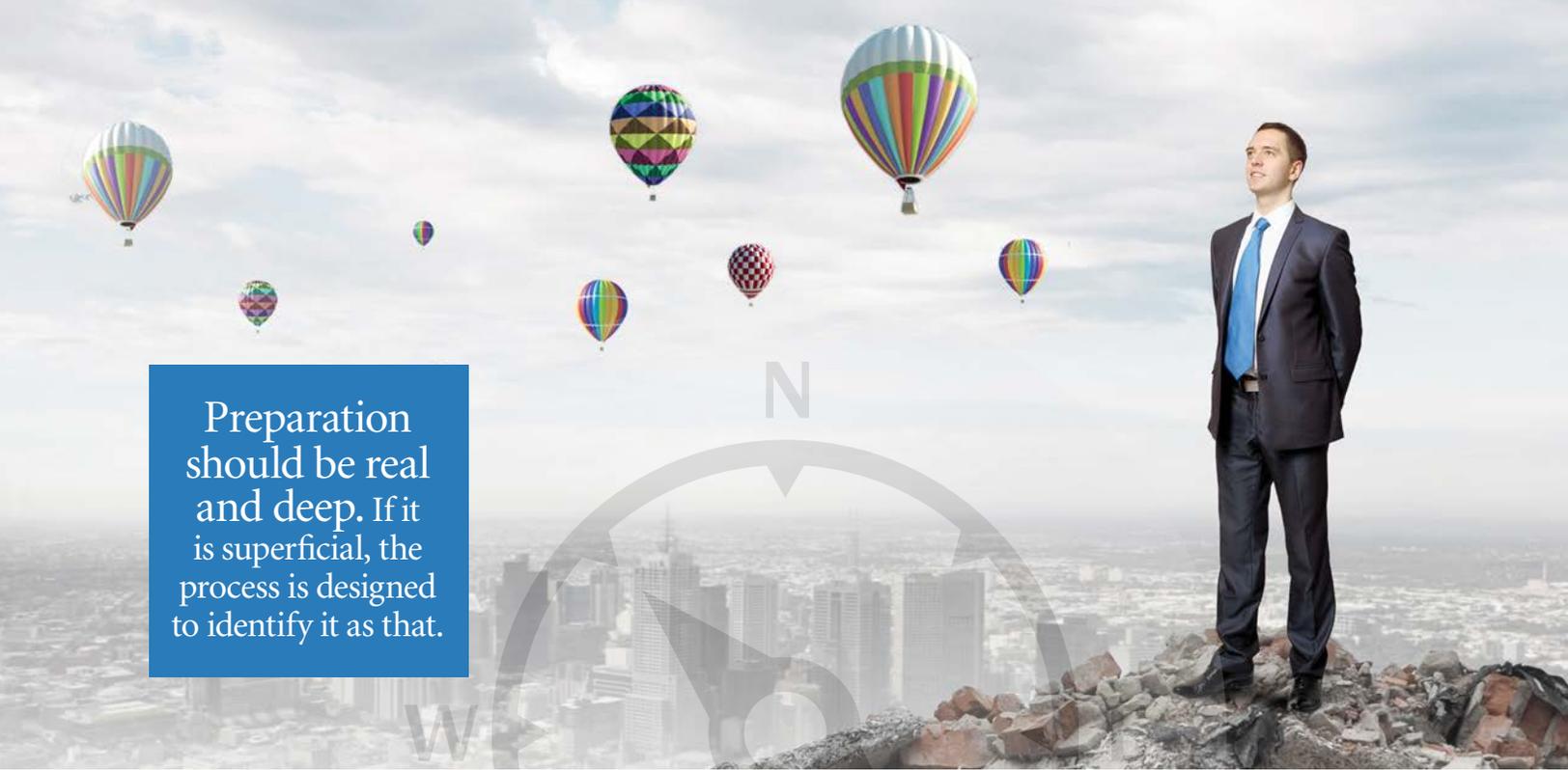
An external quality assessment might not seem a sufficient reward for the invested effort to some internal audit leaders. At best it could be viewed as a disturbance in routine and simply a “check the box” exercise. At worst, it could be seen as an opening to find fault within the internal audit department (IAD), and a costly outlay of limited funds. But the results can prove to be quite the opposite, well worth the cost, and with benefits to both the organization and IAD. The authors lay out the case for undertaking your first quality assessment.

Quality and value have become critical success factors for healthcare organizations. Clinical activities are focused on making services more patient-oriented, reliable, accessible, efficient and safe. Within healthcare, value is replacing volume as the preferred basis for reimbursement.

Quality and value are critical for internal audit departments, too. An internal audit department is expected to provide

reasonable assurance and add value, be insightful, proactive and future-focused, provide positive change, and achieve efficiency and effectiveness in delivery of audit services.

While not always easily measured, quality and value provide the accepted perspective for evaluating the performance of an IAD. Fortunately, we have the *International Professional Practices Framework* of The Institute of Internal



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Auditors (IIA), which considers quality and value to be key principles for our profession.

Demonstrating conformance with The IIA *International Standards for the Professional Practice of Internal Auditing* (The Standards) is an excellent way to give assurance to stakeholders that our activities are conducted in a quality and professional manner, and that they provide value. It is similar to hospital accreditation, which has been described as "...a self-assessment and external peer assessment process used by healthcare organizations to accurately assess their level of performance in relation to established standards and to implement ways to continuously improve."<sup>1</sup>

The process and results of an internal audit quality assessment review can be similar to various hospital accreditations, such as The Joint Commission. Accreditation is accepted as an important element of quality improvement activities. To interested parties, it confers a level of confidence regarding competence, organization and performance.

### Efficiency and credibility reflect on IA

An external quality assurance review (QAR) assesses the efficiency and effectiveness of the internal audit activity in light of its charter and expectations of the board, executive management and the chief audit executive (CAE). The QAR

process also identifies opportunities and offers ideas and counsel to the CAE and staff for improving performance and increasing the value they can add to the organization.

Assurance of IAD's performance assists management and the board in fulfilling their risk management and risk oversight responsibilities, respectively. Beyond confirming conformance with The Standards, a QAR can offer trends and leading practices that potentially further the value of the internal audit department.

For the Carolinas HealthCare System this was the case, according to Executive Vice President and General Counsel Keith Smith: "Our primary purpose for obtaining an external quality assurance review was to provide senior management and the board with an objective assessment of the performance of the internal audit department. A secondary purpose was to provide validation of the excellent work of the internal audit staff to senior leadership.

"The quality assurance review process and final report certainly accomplished our objectives," Smith said. "In addition, there were unanticipated benefits, such as receiving positive feedback from the reviewer about the internal audit department's use of technology. This feedback underscored that our decision to invest in audit software tools was sound."

<sup>1</sup>"Hospital accreditation," Wikipedia, March 25, 2015. See [http://en.wikipedia.org/wiki/Hospital\\_accreditation](http://en.wikipedia.org/wiki/Hospital_accreditation).

## Requirements are specific

According to the Attribute Standard 1300 on Quality Assurance:

- The CAE should develop and maintain a quality assurance and improvement program that covers all aspects of internal audit (IA) activity, and should continuously monitor its effectiveness.
- This includes periodic *internal* and *external* quality assessments and ongoing internal monitoring. The IAD must report yearly to the board the results of their internal ongoing assessment.
- The program should be designed to help IA add value and improve the organization's operations, and to provide assurance that the IAD's activity conforms with IIA Standards and the code of ethics.

### External QAR benefits

- Increasing understanding of the IAD (e.g., performance, value, professionalism)
- Reinforcing and strengthening the IAD's position within the organization
- Ensuring professional best practices
- Benchmarking on staffing and resource allocation
- Championing IAD needs (e.g., increased training budget, specialists such as IT auditors)
- Ensuring compliance with IIA and industry standards, and legislative and regulatory requirements
- Providing assurance to executive management and the audit committee about the audit approach and management of the IAD
- Advising solutions to increase the IAD value
- Optimizing process effectiveness
- Identifying gaps in the audit plan
- Improving communications among IA, other departments, management and the board
- Recruiting and retention advantage

## Preparation benefits IA and organization

Don't approach preparation as window dressing.

Preparation should be real and deep. If it is superficial, the process is designed to identify it as that. For example, if an independent assessor sees a policy in place but does not see it in operation, red flags will go up.

Realism is essential. Do not underestimate the lead time to prepare; it's often a multiyear commitment. Plan and implement as you need to anyway. This will be preparation for the external QAR.

Part of the preparation for the Carolinas HealthCare System's external QAR was to have managers take a class and then do an informal internal self-assessment. It offered a plan for what needed to be accomplished in the two-year period

established as the lead-up to the QAR—basically they did a gap analysis. It gave the group a roadmap to update the policy and procedures manual, redesign audit reports and identify training needs.

The commitment to preparation for an external QAR is not IAD's alone. The IAD's annual report to management and the board on its ongoing and periodic internal assessments provides a forum for these stakeholders to offer ideas and discuss priorities related to the risk assessment process, the audit plan, consultative audits and staffing and training needs.

### Five critical steps

Cooperation from all parties—internally and externally—is essential. Approaching the review with a positive attitude and a determination to keep communications open sets the right tone and is the starting point of a fruitful result.

With the tone set and a spirit of cooperation in place, five preparation steps can get underway.

### *Encourage a healthy hunger for a fresh perspective*

Stave off fear of what will be revealed by making sure all parties know the purpose, the process and their role, and

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that findings will be used for improvement rather than finger-pointing. This step is vital for active and honest participation and acceptance of the outcome.

### **Form an oversight committee**

Members may include the CFO, the chief legal officer and a member of the audit committee. The makeup of the team depends on the organization's culture and management structure. The committee's role is to counsel IAD during the preparation, interact with the independent assessor and stay involved through the final report and implementation.

With or without an oversight committee, engaging key stakeholders in choosing the QAR approach, selecting the independent assessor and providing regular status reports will help assure the success of the assessment. At a minimum, it is important to notify the people you report to and those who are included in the QAR process in advance.

### **Determine your QAR form**

External assessments can be in the form of a full external assessment or a self-assessment with independent external validation (SAIV). IAD does the lifting with an SAIV, completing the planning guides and programs, conducting surveys and interviews, completing the evaluation summaries and drafting the report. A third party reviews what IAD did and validates the assessment. An SAIV requires more internal preparation but will reduce the cost of the full external assessment.

Another approach to the full external assessment is a peer review between three or more independent organizations. (e.g., A audits B; B audits C; and C audits A).

### **Perform a self-assessment**

To prepare for an external assessment, consider The IIA's Practice Guide, *Quality Assurance and Improvement*

*Program*.<sup>2</sup> A quality assurance and improvement program is essential to meet customer expectations, as well as responsibilities inherent in conforming to The Standards.

### **Select an assessor**

IIA Standard 1312: External Assessments specifies that the full external assessment must be conducted "by a qualified, independent assessor or assessment team from outside the organization. Qualified individuals are persons with technical proficiency, internal audit experience, business experience and educational background appropriate for the audit activities to be assessed. This could include internal auditors from outside the organization, independent consultants, or independent outside auditors, but preferably not the external audit firm that audits the organization's financial statements or consultants providing co-sourcing for the entity."

## **CAE guides the external QAR process**

The CAE and the assessor work together under the guidance of the oversight committee to:

- *Determine* the list of interviewees — typically executive management, IAD management, audit committee chair and external audit partner.
- *Select* a sample of audits and related work papers for review.
- *Develop* a detailed schedule for fieldwork, interviews and delivery of the final report.
- *Establish* a process for periodically discussing the assessor's progress and preliminary findings.
- *Determine* how the final report will be communicated to management and the audit committee.

<sup>2</sup> <https://global.theiia.org/standards-guidance/recommended-guidance/practice-guides/Pages/Quality-Assurance-and-Improvement-Program-Practice-Guide.aspx>

## SAMPLE EXTERNAL QAR RFP AND TIMELINE

[Date]

[Recipient]

Dear \_\_\_\_\_,

This is a Request for a Proposal (RFP) for an External Quality Assessment Review (QAR) of the [organization name] Internal Audit Department.

**Background:** The [Organization] operates XX hospitals and serves patients at more than XX care locations, including physician practices, freestanding emergency departments, outpatient surgery centers, pharmacies, laboratories, imaging centers and other facilities. Altogether, the organization includes more than XXXX licensed beds, approximately XXXX employees, with an annual budget of \$XXXXXX.

Our Internal Audit department consists of XX professionals, including the Vice President, who reports to the CEO. The Vice President has access to the Chair of the Board Audit Committee.

The Internal Audit Department provides an independent appraisal of key financial, operational and compliance controls. The department also shares best practices that promote operational efficiencies and cost-saving opportunities. Our audit plan is the result of a variety of inputs, including an annual risk assessment. A copy of the approved Audit Plan for the current year is enclosed for your reference.

**Review services to be provided:** The selected independent party will:

1. Assess the Internal Audit Department's conformity to The Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing*.
2. Evaluate the Internal Audit Department's efficiency and effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of management).
3. Identify opportunities to enhance the Internal Audit Department's management of resources and work processes, as well as its value to the organization.
4. Evaluate experience and skill sets of current Internal Audit management and staff in determining if these skills meet the needs of the organization.

The response to this RFP should identify the membership and credentials of the review team, and the primary contact's information. The review team will include healthcare internal audit experience.

The review will be confidential, with the results only provided to designated representatives. You shall prepare a written report upon completion of the QAR that is addressed to the CEO and the Chair of the Board Audit Committee. A presentation on the QAR results will be made to the Board Audit Committee.

**Fee estimate assumptions:** Your fee estimate should incorporate the following assumptions:

- Internal Audit conducts between XX and XX internal audit projects a year.
- The project will be performed in [month, year], with a preliminary report submitted by [deadline date], and the final report issued by [deadline date].
- We anticipate the external assessor interviewing between 10 and 15 executives, including the audit committee chair and external audit partner.
- Fees should include the cost, plus any estimated expenses, including meeting with representatives of the Board Audit Committee.

**Submission and selection:** Proposals for the QAR must be submitted by [deadline date]. Each proposal will be reviewed with the CEO and the Chair of the Board Audit Committee. Selection of the provider vendor is tentatively set for [date], after interviews of finalists. Additional information requests should be coordinated through my office at [contact number].

**Other matters:** Please provide references. Also, limit your proposal to 12 pages.

We are looking forward to working with you; please do not hesitate to contact me if you have any questions.

Sincerely,

Cindy M. Auditor  
Vice President, Internal Audit  
Attachment [Exhibit 1]

## EXHIBIT 1 — EXTERNAL QAR TIMELINE

**OBJECTIVE:** Obtain an independent, external review of the Internal Audit Department to evaluate conformity to The Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing* and to provide benchmarking and best practice information.

	DATE	ACTIVITY
1		Send request for proposal (RFP) to group of independent professional service firms
2		Responses to RFP due
3		Provider selected
4		Independent firm commences review
5		Closing meeting with independent firm
6		Draft report completed and reviewed with the CEO and Chair of the Audit Committee
7		Final written report received
8		Report presented to the Board Audit Committee by the independent firm
9		Internal Audit communicates summarized QAR results to internal participants in the process

Additionally, if the CAE knows of potential improvements, they should be brought to the attention of the independent assessor. Being forthright could result in getting those areas addressed.

### The report

When the external QAR work is complete, the CAE and management, as necessary, provide responses to recommendations, including action plans and implementation dates. The final report is formally presented to senior management and the audit committee, and includes:

- *An opinion* on whether the IAD conforms with the definition of internal audit, The IIA Code of Ethics and The Standards
- *Comparison* of the IAD with leading best practices

- *Compilation* of the IAD and management perceptions and expectations of the IAD
- *Assessment* of IA staffing, credentials and training programs in comparison with the organization's business risks and the expectations of key stakeholders
- *Determination* of whether the audit activity adds value and improves the organization's operations

### The journey is just beginning

With a QAR report in hand, the IAD has a roadmap for improvement. With ongoing and periodic assessments, IAD can further its mission to provide independent, objective assurance and consulting activities to add value and improve operations. 



*Michael Fabrizio is the vice president of Audit Services for the Carolinas HealthCare System in Charlotte, N.C. Mike is an active member of AHIA, including serving as chairman of the board of directors in 2011. He was chairman of The IIA Global Board in 1997/1998. You may reach Mike at (704) 512-5928 or [Michael.Fabrizius@carolinashealthcare.org](mailto:Michael.Fabrizius@carolinashealthcare.org).*

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