

Supplemental Guidance:
**IIA *INTERNATIONAL STANDARDS FOR
THE PROFESSIONAL PRACTICE
OF INTERNAL AUDITING***

**GOVERNMENT ACCOUNTABILITY OFFICE
GOVERNMENT AUDIT STANDARDS (GAGAS)**

A COMPARISON
2nd EDITION



The Institute of
Internal Auditors

Global

Table of Contents

Executive Summary	3
Introduction.....	3
History of the Organizations and Audit Standards	3
The Standards Setting Process	4
Constituencies	6
Audit Standards Comparison Overview	8
Key Differences and Suggestions for Complying with Both Sets of Standards.....	9
Conclusion	17
Appendix – Alignment of GAGAS to the IPPF	18
Authors and Reviewers	49

Executive Summary

The United States Government Accountability Office (GAO) and The Institute of Internal Auditors (IIA) are recognized nationally and internationally as leaders in promoting high quality audit work through the issuance of professional audit standards that provide a framework for conducting audits. These organizations are committed to working together to develop standards that are complementary and can be used to perform government audits.

The purpose of this document is to identify similar principles and key differences between the organizations' standards and to provide suggestions for consideration should a government internal audit organization be required to or elect to comply with both organizations' standards in conducting audit work.

Introduction

Since the first edition of this comparison was released in 2009, GAO's Government Audit Standards (GAGAS) and The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* have both been revised. This document has been updated to reflect the December 2011 revision of GAGAS and the October 2010 revision of the *Standards*.

History of the Organizations and Audit Standards

The GAO was established by the U.S. Accounting and Budgeting Act of 1921 and is situated in the legislative branch of the U.S. government, reporting to the U.S. Congress. In its beginnings, the mission of GAO was to provide Congress with an independent check of executive accounts and to report on violations of the fiscal statutes. Over the years, the GAO has assumed additional roles in response to congressional needs. The GAO currently describes its mission as supporting Congress in meeting its constitutional responsibilities and helping to improve the performance and ensure the accountability of the federal government for the benefit of the American people.

In 1969, a group of state auditors met with Comptroller General Elmer Staats and requested help in compiling standards to improve state and federal auditing. In 1972, the comptroller general issued the first edition of the *Standards for Audit of Governmental Organizations, Programs, Activities & Functions*. In later years, GAO gave the book a more concise title, *Government Auditing Standards*, and updated its guidance periodically. Since the initial publication in 1972, *Generally Accepted Government Auditing Standards (GAGAS)*, more commonly referred to as the "GAGAS," has undergone six major revisions, the latest in December 2011. The revisions have been

made to respond to changes in the government accounting and audit environment and to changes in other professional standards, including international standards. GAGAS provides standards and guidance for financial audits, performance audits, and attestation engagements.

The IIA was incorporated in 1941 and evolved as an answer to the growth of internal auditing and in response to new management needs resulting from the increasing size and complexity of corporate and government organizations. The IIA issued a statement of responsibilities in 1947 and approved a Code of Ethics in 1968.

The first Certified Internal Auditor examination was administered in 1974, and The IIA's first *Standards for the Professional Practice of Internal Auditing* was issued in 1978. Between 1978 and 1998, the original five general and 25 specific standards were updated and interpreted through 18 Statements on Internal Auditing Standards (SIAS). In 1998, The IIA's Governing Board appointed a Guidance Task Force to review the continued applicability and relevance of the standards. As a result of its work, the Task Force recommended a new definition of *Internal Auditing*, a framework for the professional practice of internal auditing, new Attribute and Performance standards for internal auditing, and implementation standards for assurance and consulting services.

In 1999, a new Code of Ethics and Definition of Internal Auditing were issued. In 2009, the International Professional Practices Framework (IPPF) went into effect, and applies to all internal auditors across the globe. The IIA's Definition of Internal Auditing, Code of Ethics, *International Standards for the Professional Practice of Internal Auditing*, Practice Advisories, Practice Guides, and Position Papers are contained in the IPPF. The IIA has more than 175,000 members around the world with its global headquarters in Altamonte Springs, Florida. Throughout the world, The IIA is recognized as the internal audit profession's leader in certification, education, research, and technological guidance.

The Standards Setting Process

Both The IIA and GAO follow a due process procedure in establishing new and revised audit standards. These organizations issue exposure drafts of the proposed new standards for public comment. For the GAO, the comptroller general appoints an Advisory Council on Government Auditing Standards to provide advice on issues related to GAGAS standards. The Council consists of audit and accounting professionals at the federal, state, and local government levels, users and preparers, academics, and private sector CPA firms that perform government audits. For GAGAS, the comptroller general relies heavily on advice provided by the Council, but the final responsibility for issuance of the standards rests with the comptroller general. For The IIA, the issuance of new or revised *Standards* falls under the sole responsibility of the International Internal Audit Standards Board (IIASB). The IIASB has members internationally from both the private and public sectors, including members from internal audit organizations in corporations, service providers, and government organizations as well as academia. In addition, the IIASB coordinates with other IIA committees including:

- The Professional Issues Committee (PIC), which provides thought leadership and timely professional guidance to the members and stakeholders of the internal audit profession on methodologies, techniques, and authoritative positions included in the IPPF and comments on or supports other matters that impact the internal audit profession.
- The Public Sector Committee (PSC), which represents government internal auditors and also assists in promoting the Certified Government Auditing Professional (CGAP) exam, a specialty designation for government auditors.

In 2010, the International Professional Practices Framework Oversight Council (IPPFOC) was formed at The IIA's request. The IPPFOC is an international, independent body that evaluates and advises on the adequacy and appropriateness of The IIA's standards- and guidance-setting processes. The IPPFOC's mission is to increase global stakeholder confidence in The IIA's activities related to the IPPF.

Constituencies

GAGAS contains requirements and guidance for a variety of constituencies within the United States. These standards must be followed by all professional auditors conducting financial audits of government and non-profit organizations receiving federal funds subject to the audit requirements of U.S. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In the United States, it is also required to be used by federal inspectors general and by many state and local government auditors and some internal auditors as well as by CPA firms in the conduct of single audits and other government audits. Additionally, many auditors and audit organizations voluntarily choose to perform their work in accordance with GAGAS. GAGAS contains requirements for financial audits, attestation engagements, and performance audits. Additionally, many government audit organizations internationally use GAGAS as guidance in the conduct of financial and performance audits, even though there is no specific legal requirement.

Internal auditors throughout the world use The IIA *Standards*. IIA members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security. Some government audit organizations conduct audits that comply with both The IIA *Standards* and GAGAS. In addition, some organizations have expressed an interest in adopting audit standards issued by both organizations and would benefit from some practical guidance on how to address differences in the standards. The IIA *Standards* are often implemented along with the performance audit requirements of GAGAS, which are contained in Chapters 1 through 3, 6, and 7. While GAGAS is used for conducting government audits by both external and internal audit organizations, it does contain some specific requirements and guidance related to internal auditors and internal audit organizations.

Representation on GAO Advisory Council and IIA Boards and Committees

The GAO has consistently and continually provided recognition of the work of internal auditors in its standards. In accordance with its mission, The IIA supports the global profession of internal auditing through its *Standards*, Practice Advisories, Position Papers, and Practice Guides. Over the years, the comptroller general's Advisory Council has included many government auditors who are also members of The IIA and serve on IIA committees that influence the development of internal audit standards. Both the comptroller general and the chairman of the board of The IIA make a conscientious effort to have members from each other's organization on councils, boards, and committees to develop standards that meet the needs of both groups.

Audit Standards Comparison Overview

There are many similarities between The IIA *Standards* and GAGAS. Table 1 identifies the general, fieldwork, and reporting standards contained in the December 2011 revision of GAGAS for performance audits. The table also shows, for comparison, the Attribute and Performance Standards in the October 2010 IIA *Standards*. Both organizations identify ethics as a necessary foundation for a professional audit organization and its auditors.

Table 1 - Comparison Overview

GAO's Government Auditing Standards: GAGAS	IIA's International Professional Practices Framework (IPPF)
Government Auditing: Foundation and Ethical Principles	Definition of Internal Auditing* Code of Ethics*
<p style="text-align: center;">Standards for Use and Application of GAGAS</p> <ul style="list-style-type: none"> • General Standards: <ul style="list-style-type: none"> - Independence - Professional Judgment - Competence - Quality Control and Assurance • Fieldwork Standards for Performance Audits: <ul style="list-style-type: none"> - Reasonable Assurance - Significance in a Performance Audit - Audit Risk - Planning - Supervision - Evidence - Audit Documentation • Reporting Standards for Performance Audits: <ul style="list-style-type: none"> - Reporting - Report Contents - Distributing Reports 	<p style="text-align: center;"><i>International Standards for the Professional Practice of Internal Auditing (Standards)*</i></p> <ul style="list-style-type: none"> • Attribute Standards: <ul style="list-style-type: none"> - Purpose, Authority, and Responsibility - Independence and Objectivity - Proficiency and Due Professional Care - Quality Assurance and Improvement Program • Performance Standards: <ul style="list-style-type: none"> - Managing the Internal Audit Activity - Nature of Work (Governance, Risk Management, and Control) - Engagement Planning - Performing the Engagement (Identifying Information, Analysis and Evaluation, Documenting Information, and Engagement Supervision) - Communicating Results - Monitoring Progress - Resolution of Senior Management's Acceptance of Risks
	Practice Advisories**
	Position Papers** Practice Guides**
	(Both are part of the IPPF but not published in The IIA <i>Standards</i> .)

*Mandatory Guidance

**Strongly Recommended Guidance

Key Differences and Suggestions for Complying with Both Sets of Standards

The following comments are intended to highlight differences that audit organizations should consider if they elect to follow and reference both GAGAS and The IIA *Standards* as well as suggestions on how to address such differences.

A. Issue 1 – “Consulting” Under The IIA *Standards* Compared to “Consulting” Under GAGAS

The IIA *Standards* defines *internal auditing*, in part, as “an independent, objective assurance and consulting activity designed to add value to an organization’s operations.” *Consulting*, as described by The IIA, is one of two major types of audit services internal audit organizations can provide. The IIA defines *consulting services* as “advisory and related client service activities...without the internal auditor assuming management responsibility.” By comparison, paragraphs 2.12 through 2.13 and 3.33 through 3.58 of GAGAS describe types of professional services, other than audits and attestation engagements, that are sometimes referred to as nonaudit services or consulting services. GAGAS and The IIA *Standards* use the words “consulting” or “nonaudit services” to describe different services. The IIA *Standards* uses the term “consulting” within the definition of internal auditing; whereas, GAGAS categorizes any service that is not an audit or attestation engagement as a “nonaudit service.”

Suggestion:

Audit organizations that follow both The IIA Standards and GAGAS in audit work should conduct such work in accordance with both sets of audit standards. Auditors should comply with GAGAS conceptual framework and requirements for nonaudit services described in paragraphs 3.02 through 3.26 and 3.33 through 3.58, and auditors should not assume management responsibilities as provided for in The IIA definition of consulting services. Work performed in accordance with The IIA consulting standards may be comparable to a performance audit when the independence requirements of GAGAS are met along with the other standards for performance audits contained in Chapters 1 through 3, 6, and 7 of GAGAS.

B. Issue 2 – Independence in the Performance of Audit Services

IIA Standard 1130.A1 states that an internal auditor’s “objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.” IIA Standard 1130.C1 states, “Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.” The IIA’s Practice Guide Independence and Objectivity (October 2011) provides further guidance. In contrast, GAGAS specifies that auditors must be independent and discusses independence in terms of “independence of mind” and “independence in appearance.” Auditors should apply a conceptual framework to identify threats to independence, evaluate the significance of the threats identified, both individually and in the aggregate, and apply safeguards as

necessary to eliminate the threats or reduce them to an acceptable level. A self-review threat is described in paragraph 3.14 as “the threat that an auditor or audit organization that has provided nonaudit services will not appropriately evaluate the results of previous judgments made or services performed as part of the nonaudit services when forming a judgment significant to an audit.” GAGAS specifies that auditors should be independent from the audited entity during the time that falls within the period covered by the subject matter of the audit and the period of the professional engagement. This period starts when the auditors either sign an initial engagement letter or other agreement to perform an audit or begin to perform an audit, whichever is earlier, and ends with the formal or informal notification, either by the auditors or the audited entity, of the termination of the professional relationship or by the issuance of a report, whichever is later.

Suggestion:

Audit organizations should review the discussion of the conceptual framework and the related threats and safeguards for independence in paragraphs 3.02 through 3.26 of GAGAS to avoid the appearance of a lack of independence when a person is employed as an auditor and is subsequently assigned to audit an area for which the person had previous responsibility. Factors to consider before making an assignment in these circumstances include a review of changes in policies, organization, and management structure, the length of time the person has been an auditor since leaving the area now assigned to audit, and perceptions as to how others would view the auditor's independence. In this instance, the chief audit executive (CAE) or head of the internal audit organization should include in the audit documentation the rationale, factors, and standards considered in making the assignment.

C. Issue 3 – Performing Nonaudit Work

IIA Standard 1130: Impairment to Independence or Objectivity states, “If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties.” Further, Practice Advisory 1130.A2-1: Internal Audit’s Responsibility for Other (Nonaudit) Functions addresses situations where the auditor may be called upon to perform “nonaudit services.” It states that if auditors have this responsibility, then they are not functioning as internal auditors. Also, it notes that performance of nonaudit work by the internal auditor needs to be disclosed in the auditor’s standard communication to the board.

By comparison, GAGAS in paragraphs 3.33 through 3.58 discusses the provision of nonaudit services for audited entities. GAGAS states in paragraph 3.34 that with respect to independence when performing nonaudit services, “the auditor should determine whether providing such a service would create a threat to independence, either by itself or in the aggregate with other nonaudit services provided, with respect to any GAGAS audit it performs.” In addition, GAGAS states in paragraph 3.44 that if the auditor is required to perform a nonaudit service that could impair the auditor’s independence with respect to a required audit and the auditor cannot implement safeguards to adequately mitigate the threat or decline to perform or terminate the nonaudit service,

the auditor should disclose the nature of the threat and modify the GAGAS compliance statement accordingly.

Suggestion:

Audit organizations should carefully review GAGAS independence conceptual framework contained in paragraphs 3.02 through 3.26. Audit organizations should also carefully review the discussion of nonaudit services in paragraphs 3.33 through 3.58, because the performance of certain types of nonaudit services by the audit organization or specific staff could impair independence on the assigned audit and significantly affect the ability of the audit organization to conduct the audits. Audit organizations should make every effort to conduct all work in accordance with the more detailed requirements of GAGAS.

D. Issue 4 – Reviewing the Organization’s Ethics Program

IIA Standard 2110.A1 provides, “the internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.” By comparison, GAGAS incorporates the ethical principles of the audit organization into Chapter 1. Further, while not an audit requirement, paragraph 1.01 of GAGAS discusses the ethical responsibility for government officials and establishes an expectation that they would carry out public functions ethically. The IIA Standards appears to be more detailed, requiring a periodic evaluation of the entire organization’s ethics-related objectives, programs, and activities, not just the ethics of the audit organization.

Suggestion:

To comply with the additional requirements of The IIA Standards, a periodic evaluation should be made of the organization’s ethics program, and that evaluation should be documented through a note or memos to the file or through an audit on the subject matter.

E. Issue 5 – Risk Assessment for Overall Audit Planning

IIA Standard 2010: Planning states that the CAE “must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization’s goals.” IIA Standard 2010.A1 further requires that “the internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.” The IIA Practice Guide Assessing the Adequacy of Risk Management (December 2010), provides further guidance. GAGAS does not contain requirements pertaining to the overall audit planning for the audit organization, but focuses on planning associated with individual audits.

Suggestion:

To comply with the additional requirements of The IIA Standards, the audit organization should complete a plan of engagements at least annually that is based on a documented risk assessment.

F. Issue 6 – External Quality Assurance Review

In IIA Standard 1312: External Assessments, “external assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization,” whereas paragraph 3.96 of GAGAS states that audit organizations performing work in accordance with GAGAS must have an external peer review performed by reviewers independent of the audit organization at least once every three years. Paragraph 3.105 of GAGAS also requires internal audit organizations to provide a copy of the external peer review report to those charged with governance. IIA Standard 1320: Reporting on the Quality Assurance and Improvement Program (QAIP) requires the CAE to “communicate the results of the quality assurance and improvement program to senior management and the board.”

Suggestion:

Audit organizations conducting audits under The IIA Standards and GAGAS should have a peer review or an external quality assurance review conducted every three years designed to determine conformance with both The IIA Standards and GAGAS. This approach would likely be more efficient than having a GAGAS review every three years and an IIA Standards review every five years.

G. Issue 7 – Quality Assurance Systems

IIA Standard 1300: Quality Assurance and Improvement Program states that the CAE “must develop and maintain a QAIP that covers all aspects of the internal audit activity.” Standard 1310: Requirements of the Quality Assurance and Improvement Program requires that the program “include both internal and external assessments.” Standard 1311: Internal Assessments states, “Internal assessments must include ongoing monitoring of the performance of the internal audit activity and periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.” (External assessments are discussed under Issue 6.) Standard 1320 requires the CAE to “communicate the results of the QAIP to senior management and the board.” Finally, Practice Advisory 1311-1: Internal Assessments provides recommended guidance for performing internal assessments within the internal audit activity, including that the CAE reports the results of internal assessments at least annually. In addition, The IIA’s Practice Guide Measuring Internal Audit Effectiveness and Efficiency, (December 2010) provides further guidance.

Paragraph 3.82 of GAGAS states, “Each audit organization performing audits in accordance with GAGAS must establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements.” As part of this system of quality control, paragraph 3.84 requires audit organizations to document and communicate their quality control policy and procedures. These policies and procedures according to Paragraph 3.85 should collectively address: leadership responsibilities for quality within the audit organization; independence, legal, and ethical requirements; initiation, acceptance, and continuance of audits; human resources; audit performance, documentation, and reporting; and monitoring of quality. Also, paragraph 3.95 requires the audit organization

to “analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action.” Both sets of standards discuss the need for the audit organization to establish a quality assurance system. However, GAGAS includes more detailed requirements for the audit organization’s quality assurance system and the requirement to annually analyze and summarize the results of its monitoring procedures.

Suggestion:

Audit organizations should follow GAGAS’ more detailed requirements for the audit organization’s quality assurance system and the recommendations in IIA Practice Advisory 1311-1 and analyze and summarize the results of its monitoring procedures at least annually.

H. Issue 8 – Reporting Compliance with the Standards

GAGAS paragraph 7.30 provides specific language the auditor should use to indicate work was performed in accordance with GAGAS. The language provides for a compliance statement that the audit complied with GAGAS and a description of work relating to planning, performance of work, evidence, and providing reasonable assurance that evidence collected provides a reasonable basis for findings and recommendations.

Suggestion:

When reporting, use language of GAGAS and also make reference to The IIA Standards similar to the following:

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Note: Internal audit organizations that have not established a QAIP may not be able to make the above statement. The results of the QAIP include the results of both internal and external assessments. See IIA Standards 1321: Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing,” 2430: Use of “Conducted In Conformance with the International Standards for the Professional Practice of Internal Auditing,” and Practice Advisory 1321-1: Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing.”

I. Issue 9 – Referencing the Standards

In IIA Standard 1321, the CAE may state that the internal audit activity conforms with the *Standards* only if the results of the QAIP support this statement. Further, Practice Advisory 1321-1 states that initial use of the compliance phrase is not appropriate until an external review has demonstrated the internal audit activity is in conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.

By comparison, GAGAS in paragraphs 2.24 and 7.30 states that auditors should include a GAGAS compliance statement in the auditor's report. GAGAS contains more detailed requirements for reporting compliance with the audit standards. Paragraph 3.97 states that "the first peer review for an audit organization not already subject to a peer review requirement covers a review period ending no later than three years from the date an organization begins its first audit in accordance with GAGAS." Paragraphs 3.93 through 3.95 discuss monitoring as part of the system of quality control to evaluate whether the professional standards and legal and regulatory requirements have been followed, quality control system has been appropriately designed, and quality control policies and procedures are operating effectively and complied with in practice.

Suggestion:

Until the audit activity has completed assessments that demonstrate the audit activity is in conformance with the IIA Standards, auditors should not report activities are conducted in accordance with the Standards but should make the compliance statement as allowed under GAGAS, if applicable. If the audit activity complies with both sets of standards, the GAGAS compliance statement may incorporate a reference to compliance with the IIA Standards.

J. Issue 10 – Fraud

Both the IIA *Standards* and GAGAS address various aspects of fraud as it relates to required knowledge, planning, additional procedures, and reporting as follows.

- Knowledge — The following IIA *Standards* provide guidance on addressing fraud risks:
 - Standard 2120.A2 requires the internal audit activity to "evaluate the potential for the occurrence of fraud and how the organization manages fraud risk."
 - Standard 1210.A2 requires internal auditors to "have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud."
 - Standard 1220.A1 requires internal auditors to "exercise due professional care by considering... the probability of significant errors, fraud, or noncompliance."

In addition, The IIA Practice Guide Internal Auditing and Fraud (2009) contains comprehensive guidance for internal auditors relative to fraud awareness, responsibilities during engagements, risk assessment, prevention and detection,

investigation, and communication. GAGAS paragraph 3.69 requires that “the staff assigned to perform the audit must collectively possess adequate professional competence needed to address the audit objectives and perform the work in accordance with GAGAS.” In this case, competence is implied relative to fraud detection.

- **Planning** — Both standards require assessment of potential fraud risk during engagement planning. The primary IIA *Standards* are 2120.A1 and 2120.A2. The primary GAGAS paragraphs are 6.30 through 6.32.
- **Additional Procedures** — In paragraph 6.30, GAGAS requires audit team members to discuss among the team fraud risks, including factors that could allow individuals to commit fraud. Also, GAGAS states in paragraphs 6.31 and 6.32 that auditors should design additional procedures when they identify factors or risks related to fraud that has occurred or is likely to have occurred, that is significant within the context of the audit objectives.
- **Reporting** — IIA Standard 2060: Reporting to Senior Management and the Board and GAGAS paragraphs 7.18, 7.21, 7.22, and 7.24 provide specific guidance on reporting of fraud issues. Paragraph 7.21 of GAGAS requires the auditor to report fraud that either has occurred or is likely to have occurred that is significant within the context of the audit objectives. In addition, GAGAS in paragraph 7.22 requires the auditor to communicate in writing to audited entity officials fraud that is not significant within the context of the audit objectives, but warrants the attention of those charged with governance.

Suggestion:

Both the IIA Standards and GAGAS provide guidance in the area of fraud. However, GAGAS provides more specific guidance. Conducting a fraud brainstorming session for each audit, and performing additional audit procedures should factors or risks related to fraud be identified are specific requirements of GAGAS currently not addressed in the IIA Standards. In addition, GAGAS has more detailed requirements for the reporting of fraud. Auditors should follow the more detailed GAGAS requirements.

K. Issue 11 – Follow-up on Previous Audits

In IIA Standard 2500: Monitoring Progress, the CAE “must establish and maintain a system to monitor the disposition of results communicated to management.” Further, Standard 2500.A1 provides that the CAE “must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.” By comparison, paragraph 6.36 of GAGAS provides that “auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives.” When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, performance audits, or other studies that directly relate to the objectives of the audit, including whether related recommendations

have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.

The IIA *Standards* requires follow-up activities on each audit to ensure accountability, whereas GAGAS requires follow-up on previous audits to the extent that such management actions could affect the planning of the current engagement. Additionally, GAGAS indicates in paragraph A1.08f that establishing and maintaining a process to track the status of findings and recommendations is a management responsibility.

Suggestion:

Audit organizations should establish a follow-up process that meets the requirement of the more detailed IIA Standards, while not assuming management's responsibilities.

L. Issue 12 – Continuing Professional Education (CPE)

IIA Standard 1230: Continuing Professional Development states, “Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.” Practice Advisory 1230-1 states, “Internal auditors with professional certifications are responsible for obtaining sufficient CPE to satisfy requirements related to the professional certification held.” Internal auditors not presently holding certifications are encouraged to pursue CPE that supports efforts to obtain professional certification. The IIA *Standards* does not specify the number of hours recommended per year or biennially for auditors who are not certified. GAGAS, in paragraph 3.76, requires auditors to “complete, every two years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. Auditors who are involved in any amount of planning, directing, or reporting on GAGAS audits and auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS audits should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every two-year period) that enhances the auditor’s professional proficiency to perform audits.” GAGAS requirement for CPE also applies to internal specialists who are performing work in accordance with GAGAS as part of the audit team. For these internal specialists, training in their areas of specialization qualifies for the 24-hour requirement. GAGAS CPE requirement makes no distinction between recommended hours of CPE for certified staff versus uncertified staff.

Suggestion:

Audit organizations should follow the more detailed CPE requirements of GAGAS for all auditors and internal specialists performing work in accordance with GAGAS, whether certified or not. See the Government Auditing Standards Guidance on GAGAS Requirements for Continuing Professional Education for additional guidance on complying with GAGAS CPE requirements.

Conclusion

For organizations either required to or that elect to use both GAGAS and The IIA *Standards*, this comparison can enhance the quality of internal audit activities. When differences arise between standards, questions will inevitably arise as to which standards take precedence. By providing suggestions for appropriate action in these situations, this tool provides additional clarity for public sector internal auditors and demonstrates that the standards can be compatible.

APPENDIX – Alignment of GAGAS to the IPPF

2011 GAGAS	2011 IPPF
<p>Chapter 1 Government Auditing: Foundation and Ethical Principles-Introduction:</p> <p>1.03 Government auditing is essential in providing accountability to legislators, oversight bodies, those charged with governance, and the public. Audits provide an independent, objective, nonpartisan assessment of the stewardship, performance, or cost of government policies, programs, or operations, depending upon the type and scope of the audit.</p>	<p>Definition of Internal Auditing Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.</p> <p>Code of Ethics Internal auditors are expected to apply and uphold the following principles: Integrity, Objectivity, Confidentiality, and Competency.</p>
<p>Purpose and Applicability of GAGAS:</p> <p>1.05 Audits performed in accordance with GAGAS provide information used for oversight, accountability, transparency, and improvements of government programs and operations. GAGAS contains requirements and guidance to assist auditors in objectively acquiring and evaluating sufficient, appropriate evidence and reporting the results. When auditors perform their work in this manner and comply with GAGAS in reporting the results, their work can lead to improved government management, better decision making and oversight, effective and efficient operations, and accountability and transparency for resources and results.</p> <p>1.06 Provisions of laws, regulations, contracts, grant agreements, or policies frequently require audits be conducted in accordance with GAGAS. In addition, many auditors and audit organizations voluntarily choose to perform their work in accordance with GAGAS. The requirements and guidance in GAGAS apply to audits of government entities, programs, activities, and functions, and of government assistance administered by contractors, nonprofit entities, and other nongovernmental entities when the use of GAGAS is required or is voluntarily followed.</p>	<p>1000 – Purpose, Authority, and Responsibility: The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.</p>
<p>Ethical Principles-The Public Interest:</p> <p>1.15 The public interest is defined as the collective well-being of the community of people and entities the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities assists auditors in meeting the principle of serving the public interest and honoring the public trust. The principle of the public interest is fundamental to the responsibilities of auditors and critical in the government environment.</p> <p>1.16 A distinguishing mark of an auditor is acceptance of responsibility to serve the public interest. This responsibility is critical when auditing in the government environment. GAGAS embodies the concept of accountability for public resources, which is fundamental to serving the public interest. Integrity:</p> <p>1.18 Making decisions consistent with the public interest of the program or activity under audit is an important part of the principle of integrity. In discharging their professional responsibilities, auditors may encounter conflicting pressures from management of the audited entity, various levels of government, and other likely users. Auditors may also encounter pressures to inappropriately achieve personal or organizational gain. In resolving those conflicts and pressures, acting with integrity means that auditors place priority on their responsibilities to the public interest.</p>	

2011 GAGAS	2011 IPPF
<p>1.17 Public confidence in government is maintained and strengthened by auditors performing their professional responsibilities with integrity. Integrity includes auditors conducting their work with an attitude that is objective, fact-based, nonpartisan, and nonideological with regard to audited entities and users of the auditors' reports. Within the constraints of applicable confidentiality laws, rules, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the audit are expected to be honest, candid, and constructive.</p>	<p>Integrity (Code of Ethics – Principles) The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.</p> <p>1. Integrity (Code of Ethics – Rules of Conduct) Internal auditors:</p> <p>1.1 Shall perform their work with honesty, diligence, and responsibility.</p> <p>1.2 Shall observe the law and make disclosures expected by the law and the profession.</p> <p>1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.</p> <p>1.4 Shall respect and contribute to the legitimate and ethical objectives of the organization.</p>
<p>Objectivity: 1.19 The credibility of auditing in the government sector is based on auditors' objectivity in discharging their professional responsibilities. Objectivity includes independence of mind and appearance when providing audits, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public. The concepts of objectivity and independence are closely related. Independence impairments impact objectivity. [Footnote not shown]</p>	<p>Objectivity (Code of Ethics – Principles): Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.</p> <p>2. Objectivity (Code of Ethics – Rules of Conduct) Internal auditors:</p> <p>2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.</p> <p>2.2 Shall not accept anything that may impair or be presumed to impair their professional judgment.</p> <p>2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.</p>
<p>Proper Use of Government Information, Resources, and Positions:</p> <p>1.20 Government information, resources, and positions are to be used for official purposes and not inappropriately for the auditor's personal gain or in a manner contrary to law or detrimental to the legitimate interests of the audited entity or the audit organization. This concept includes the proper handling of sensitive or classified information or resources.</p> <p>1.21 In the government environment, the public's right to the transparency of government information has to be balanced with the proper use of that information. In addition, many government programs are subject to laws and regulations dealing with the disclosure of information. To accomplish this balance, exercising discretion in the use of information acquired in the course of auditors' duties is an important part in achieving this goal. Improperly disclosing any such information to third parties is not an acceptable practice.</p> <p>1.22 Accountability to the public for the proper use and prudent management of government resources is an essential part of auditors' responsibilities. Protecting and conserving government resources and using them appropriately for authorized activities are an important element in the public's expectations for auditors.</p>	<p>Confidentiality (Code of Ethics – Principles): Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.</p> <p>3. Confidentiality (Code of Ethics – Rules of Conduct) Internal auditors:</p> <p>3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.</p> <p>3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.</p>

2011 GAGAS	2011 IPPF
<p>Professional Behavior:</p> <p>1.24 High expectations for the auditing profession include compliance with all relevant legal, regulatory, and professional obligations and avoidance of any conduct that might bring discredit to auditors' work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditors' work was professionally deficient. Professional behavior includes auditors putting forth an honest effort in performance of their duties and professional services in accordance with the relevant technical and professional standards.</p>	<p>1220 – Due Professional Care: Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.</p>
<p>Chapter 2: Standards for Use and Application of GAGAS-Types of GAGAS Audits and Attestation Engagements:</p> <p>2.04 In some audits, the standards applicable to the specific objective will be apparent....However, some audits may have multiple or overlapping objectives. For example, if the objectives are to determine the reliability of performance measures, this work can be done in accordance with either the standards for attestation engagements or performance audits. In cases in which there is a choice between applicable standards, auditors should evaluate users' needs and the auditors' knowledge, skills, and experience in deciding which standards to follow.</p>	
<p>Performance Audits: 2.10 Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. The term "program" is used in GAGAS to include government entities, organizations, programs, activities, and functions.</p>	<p>1000.A1 – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.</p> <p>2110 – Governance: The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives: Promoting appropriate ethics and values within the organization; Ensuring effective organizational performance management and accountability; Communicating risk and control information to appropriate areas of the organization; Coordinating the activities of and communicating information among the board, external and internal auditors, and management.</p>
<p>2.12 GAGAS does not cover nonaudit services, which are defined as professional services other than audits or attestation engagements. Therefore, auditors do not report that the nonaudit services were conducted in accordance with GAGAS. When performing nonaudit services for an entity for which the audit organization performs a GAGAS audit, audit organizations should communicate with requestors and those charged with governance to clarify that the work performed does not constitute an audit conducted in accordance with GAGAS.</p> <p>2.13 When audit organizations provide nonaudit services to entities for which they also provide GAGAS audits, they should assess the impact that providing those nonaudit services may have on auditor and audit organization independence and respond to any identified threats to independence in accordance with the GAGAS independence standard.</p>	<p>1130.A1 – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.</p> <p>1000.C1 – The nature of consulting services must be defined in the internal audit charter.</p>

2011 GAGAS	2011 IPPF
<p>Use of Terminology to Define Professional Requirements in GAGAS:</p> <p>2.15 GAGAS uses two categories of requirements, identified by specific terms, to describe the degree of responsibility they impose on auditors and audit organizations, as follows:</p> <ul style="list-style-type: none"> a. Unconditional requirements: Auditors and audit organizations must comply with an unconditional requirement in all cases where such requirement is relevant. GAGAS uses the word <i>must</i> to indicate an unconditional requirement. b. Presumptively mandatory requirements: Auditors and audit organizations must comply with a presumptively mandatory requirement in all cases where such a requirement is relevant except in rare circumstances discussed in paragraph <p>2.16 GAGAS uses the word <i>should</i> to indicate a presumptively mandatory requirement.</p>	<p>Introduction to the International Standards: The <i>Standards</i> employ terms that have been given specific meanings that are included in the Glossary. Specifically, the <i>Standards</i> use the word <i>must</i> to specify an unconditional requirement and the word <i>should</i> where conformance is expected unless, when applying professional judgment, circumstances justify deviation.</p> <p>It is necessary to consider the Statements and their Interpretations as well as the specific meanings from the Glossary to understand and apply the <i>Standards</i> correctly.</p> <p>The IIA's authoritative guidance...consists of two categories: Mandatory Guidance...is developed following an established due diligence process, which includes a period of public exposure for stakeholder input...Strongly recommended guidance is endorsed by The IIA through a formal approval process. It describes practices for effective implementation of The IIA's Definition of Internal Auditing, Code of Ethics, and <i>International Standards for the Professional Practice of Internal Auditing (Standards)</i>.</p>
<p>Relationship between GAGAS and Other Professional Standards:</p> <p>2.19 Auditors may use GAGAS in conjunction with professional standards issued by other authoritative bodies.</p> <p>2.22 When auditors cite compliance with both GAGAS and another set of standards, such as those listed in paragraphs 2.20 and 2.21, auditors should refer to paragraph 2.24 for the requirements for citing compliance with GAGAS. In addition to citing GAGAS, auditors may also cite the use of other standards in their reports when they have also met the requirements for citing compliance with the other standards. Auditors should refer to the other set of standards for the basis for citing compliance with those standards.</p>	<p>Introduction to the International Standards: If the <i>Standards</i> are used in conjunction with standards issued by other authoritative bodies, internal audit communications may also cite the use of other standards, as appropriate. In such a case, if inconsistencies exist between the <i>Standards</i> and other standards, internal auditors and the internal audit activity must conform with the <i>Standards</i>, and may conform with the other standards if they are more restrictive.</p>
<p>Stating Compliance with GAGAS in the Auditors' Report:</p> <p>2.23 When auditors are required to perform an audit in accordance with GAGAS or are representing to others that they did so, they should cite compliance with GAGAS in the auditors' report as set forth in paragraphs 2.24 through 2.25.</p> <p>2.24 Auditors should include one of the following types of GAGAS compliance statements in reports on GAGAS audits, as appropriate.</p> <ul style="list-style-type: none"> a. Unmodified GAGAS compliance statement: Stating that the auditor performed the audit in accordance with GAGAS. Auditors should include an unmodified GAGAS compliance statement in the auditors' report when they have: <ul style="list-style-type: none"> (1) followed unconditional and applicable presumptively mandatory GAGAS requirements; or (2) have followed unconditional requirements, and documented justification for any departures from applicable presumptively mandatory requirements and have achieved the objectives of those requirements through other means. b. Modified GAGAS compliance statement: Stating either that: <ul style="list-style-type: none"> (1) the auditor performed the audit in accordance with GAGAS, except for specific applicable requirements that were not followed; or (2) because of the significance of the departure(s) from the requirements, the auditor was unable to and did not perform the audit in accordance with GAGAS. Situations when auditors use modified compliance statements also include scope limitations, such as restrictions on access to records, government officials, or other individuals needed to conduct the audit. When auditors use a modified GAGAS statement, they should disclose in the report the applicable requirement(s) not followed, the requirement(s) affected, or could have affected, the audit and the assurance provided. 	<p>1321 – Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing":</p> <p>The chief audit executive may state that the internal audit activity conforms with the <i>Standards</i> only if the results of the quality assurance and improvement program support this statement.</p> <p>Interpretation: The internal audit activity conforms with the <i>Standards</i> when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics, and <i>Standards</i>. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.</p>

2011 GAGAS	2011 IPPF
<p>2.25 When auditors do not comply with applicable requirement(s), they should (1) assess the significance of the noncompliance to the audit objectives, (2) document the assessment, along with their reasons for not following the requirement(s), and (3) determine the type of GAGAS compliance statement. The auditors' determination is a matter of professional judgment, which is affected by the significance of the requirement(s) not followed in relation to the audit objectives.</p>	<p>1322 – Disclosure of Nonconformance: When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the <i>Standards</i> impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.</p>
<p>Chapter 3: General Standards-Independence:</p> <p>3.02 In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent.</p> <p>3.04 Auditors and audit organizations maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. Auditors should avoid situations that could lead reasonable and informed third parties to conclude that the auditors are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work.</p> <p>3.06 GAGAS's practical consideration of independence consists of four interrelated sections, providing:</p> <ul style="list-style-type: none"> a. a conceptual framework for making independence determinations based on facts and circumstances that are often unique to specific environments; b. requirements for and guidance on independence for audit organizations that are structurally located within the entities they audit; c. requirements for and guidance on independence for auditors performing nonaudit services, including indication of specific nonaudit services that always impair independence and others that would not normally impair independence; and d. requirements for and guidance on documentation necessary to support adequate consideration of auditor independence. 	<p>1100 – Independence and Objectivity: The internal audit activity must be independent, and internal auditors must be objective in performing their work.</p> <p>1110 – Organizational Independence: The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.</p> <p>1120 – Individual Objectivity: Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.</p>
<p>GAGAS Conceptual Framework Approach to Independence:</p> <p>3.07 Many different circumstances, or combinations of circumstances, are relevant in evaluating threats to independence. Therefore, GAGAS establishes a conceptual framework that auditors use to identify, evaluate, and apply safeguards to address threats to independence. The conceptual framework assists auditors in maintaining both independence of mind and independence in appearance. It can be applied to many variations in circumstances that create threats to independence and allows auditors to address threats to independence that result from activities that are not specifically prohibited by GAGAS.</p> <p>See Appendix II for a flowchart to assist in the application of the conceptual framework for independence.</p> <p>Application of the Conceptual Framework:</p> <p>3.20 Auditors should evaluate threats to independence using the conceptual framework when the facts and circumstances under which the auditors perform their work may create or augment threats to independence. Auditors should evaluate threats both individually and in the aggregate because threats can have a cumulative effect on an auditor's independence.</p>	

2011 GAGAS	2011 IPPF
<p>Threats:</p> <p>3.13 Threats to independence are circumstances that could impair independence. Whether independence is impaired depends on the nature of the threat, whether the threat is of such significance that it would compromise an auditor's professional judgment or create the appearance that the auditor's professional judgment may be compromised, and on the specific safeguards applied to eliminate the threat or reduce it to an acceptable level. Threats are conditions to be evaluated using the conceptual framework. Threats do not necessarily impair independence.</p> <p>3.14 Threats to independence may be created by a wide range of relationships and circumstances. Auditors should evaluate the following broad categories of threats to independence when threats are being identified and evaluated:</p> <ul style="list-style-type: none"> a. Self-interest threat; b. Self-review threat; c. Bias threat; d. Familiarity threat; e. Undue influence threat; f. Management participation threat; and g. Structural threat. 	<p>1120 – Individual Objectivity: Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.</p> <p>1100 – Independence and Objectivity: The internal audit activity must be independent, and internal auditors must be objective in performing their work.</p>
<p>Safeguards:</p> <p>3.16 Safeguards are controls designed to eliminate or reduce to an acceptable level threats to independence. Under the conceptual framework, the auditor applies safeguards that address the specific facts and circumstances under which threats to independence exist. In some cases, multiple safeguards may be necessary to address a threat....</p>	
<p>3.23 When an auditor identifies threats to independence and, based on an evaluation of those threats, determines that they are not at an acceptable level, the auditor should determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. The auditor should exercise professional judgment in making that determination, and should take into account whether both independence of mind and independence in appearance are maintained. The auditor should evaluate both qualitative and quantitative factors when determining the significance of a threat.</p> <p>3.24 In cases where threats to independence are not at an acceptable level, thereby requiring the application of safeguards, the auditors should document the threats identified and the safeguards applied to eliminate the threats or reduce them to an acceptable level.</p> <p>3.25 Certain conditions may lead to threats that are so significant that they cannot be eliminated or reduced to an acceptable level through the application of safeguards, resulting in impaired independence. Under such conditions, auditors should decline to perform a prospective audit or terminate an audit in progress.</p>	<p>2. Objectivity (Code of Ethics – Rules of Conduct) Internal auditors:</p> <p>2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.</p> <p>2.2 Shall not accept anything that may impair or be presumed to impair their professional judgment.</p> <p>2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.</p> <p>Practice Advisory 1130-1: Impairment to Independence or Objectivity:</p> <p>1. If the CAE determines that impairment exists or may be inferred, he or she needs to reassign the auditor(s).</p>

2011 GAGAS	2011 IPPF
<p>3.26 If a threat to independence is initially identified after the auditors' report is issued, the auditor should evaluate the threat's impact on the audit and on GAGAS compliance. If the auditors determine that the newly identified threat had an impact on the audit that would have resulted in the auditors' report being different from the report issued had the auditors been aware of it, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the organizations requiring or arranging for the audits, and other known users, so that they do not continue to rely on findings or conclusions that were impacted by the threat to independence. If the report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed. The auditors should then determine whether to conduct additional audit work necessary to reissue the report, including any revised findings or conclusions or repost the original report if the additional audit work does not result in a change in findings or conclusions.</p>	<p>1130 – Impairment to Independence or Objectivity: If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.</p>
<p>Government Auditors and Audit Organization Structure: 3.27 The ability of audit organizations in government entities to perform work and report the results objectively can be affected by placement within government and the structure of the government entity being audited. The independence standard applies to auditors in government entities whether they report to third parties externally (external auditors), to senior management within the audited entity (internal auditors), or to both.</p>	<p>1110 – Organizational Independence: The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.</p> <p>1110.A1 – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.</p> <p>Practice Advisory 1110-1: Organizational Independence</p>
<p>Internal Auditor Independence: 3.31 Certain entities employ auditors to work for entity management. These auditors may be subject to administrative direction from persons involved in the entity management process. Such audit organizations are internal audit functions and are encouraged to use the Institute of <i>Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing</i> in conjunction with GAGAS. In accordance with GAGAS, internal auditors who work under the direction of the audited entity's management are considered independent for the purposes of reporting internally if the head of the audit organization meets all of the following criteria:</p> <ol style="list-style-type: none"> is accountable to the head or deputy head of the government entity or to those charged with governance; reports the audit results both to the head or deputy head of the government entity and to those charged with governance; is located organizationally outside the staff or line-management function of the unit under audit; has access to those charged with governance; and is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal. <p>3.32 When internal audit organizations perform audits of external parties such as auditing contractors or outside party agreements, and no impairments to independence exist, the audit organization can be considered independent as an external audit organization of those external parties.</p>	<p>2060 – Reporting to Senior Management and the Board: The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.</p> <p>1110 – Organizational Independence: The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.</p> <p>1111 – Direct Interaction with the Board: The chief audit executive must communicate and interact directly with the board.</p> <p>Practice Advisory 2060-1 Reporting to Senior Management and the Board</p>

2011 GAGAS	2011 IPPF
<p>Provision of Nonaudit Services to Audited Entities:</p> <p>3.33 Auditors have traditionally provided a range of nonaudit services that are consistent with their skills and expertise to entities at which they perform audits. Providing such nonaudit services may create threats to an auditor's independence.</p> <p>Requirements for Performing Nonaudit Services:</p> <p>3.34 Before an auditor agrees to provide a nonaudit service to an audited entity, the auditor should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS audit it performs. A critical component of this determination is consideration of management's ability to effectively oversee the nonaudit service to be performed. The auditor should determine that the audited entity has designated an individual who possesses suitable skill, knowledge, or experience, and that the individual understands the services to be performed sufficiently to oversee them. The individual is not required to possess the expertise to perform or reperform the services. The auditor should document consideration of management's ability to effectively oversee nonaudit services to be performed.</p>	<p>1130.A1 – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.</p> <p>1130.A2 – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.</p> <p>1130.C1 – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.</p> <p>1130.C2 – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.</p> <p>Practice Advisory 1130.A1-1: Assessing Operations for Which Internal Auditors Were Previously Responsible</p>
<p>3.35 If an auditor were to assume management responsibilities for an audited entity, the management participation threats created would be so significant that no safeguards could reduce them to an acceptable level. Management responsibilities involve leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, physical, and intangible resources.</p> <p>3.36 Whether an activity is a management responsibility depends on the facts and circumstances and auditors exercise professional judgment in identifying these activities....</p> <p>3.42 An auditor who previously performed nonaudit services for an entity that is a prospective subject of an audit should evaluate the impact of those nonaudit services on independence before accepting an audit. If the nonaudit services were performed in the period to be covered by the audit, the auditor should (1) determine if the nonaudit service is expressly prohibited by GAGAS and, if not, (2) determine whether a threat to independence exists and address any threats noted in accordance with the conceptual framework.</p> <p>3.43 Nonaudit services provided by auditors can impact independence of mind and in appearance in periods subsequent to the period in which the nonaudit service was provided.... Auditors use professional judgment to determine whether the safeguards adequately mitigate the threats.</p> <p>Documentation: 3.59 Documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements. GAGAS contains specific requirements for documentation related to independence which may be in addition to the documentation that auditors have previously maintained. While insufficient documentation of an auditor's compliance with the independence standard does not impair independence, appropriate documentation is required under the GAGAS quality control and assurance requirements....</p>	

2011 GAGAS	2011 IPPF
<p>3.46 Auditors may be able to provide nonaudit services in the broad areas indicated in paragraphs 3.49 through 3.58 without impairing independence if (1) the nonaudit services are not expressly prohibited, (2) the auditor has determined that the requirements for performing nonaudit services in paragraphs 3.34 through 3.44 have been met, and (3) any significant threats to independence have been eliminated or reduced to an acceptable level through the application of safeguards. Auditors should use the conceptual framework to evaluate independence given the facts and circumstances of individual services not specifically prohibited in this section.</p> <p>For discussion of broad areas see: 3.49 Management Responsibilities; 3.50-3.52: Preparing Accounting Records and Financial Statements; 3.53-3.55: Internal Audit Assistance Services Provided by External Auditors; 3.57: Valuation Services; 3.58: Other Nonaudit Service.</p>	<p>Practice Advisory 1130.A2-1: Internal Audit's Responsibility for Other (Nonaudit) Functions:</p> <p>4. When the internal audit activity accepts operational responsibilities and that operation is part of the audit plan, the CAE needs to:</p> <ul style="list-style-type: none"> • Minimize the impairment to objectivity by using a contracted, third-party entity or external auditors to complete audits of those areas reporting to the CAE. • Confirm that individuals with operational responsibility for those areas reporting to the CAE do not participate in internal audits of the operation. • Ensure that internal auditors conducting the assurance engagement of those areas reporting to the CAE are supervised by, and report the results of the assessment, to senior management and the board. • Disclose the operational responsibilities of the internal auditor for the function, the significance of the operation to the organization (in terms of revenue, expenses, or other pertinent information), and the relationship of those who audited the function. <p>5. The auditor's operational responsibilities need to be disclosed in the related audit report of those areas reporting to the CAE and in the internal auditor's standard communication to the board. Results of the internal audit may also be discussed with management and/or other appropriate stakeholders. Impairment disclosure does not negate the requirement that assurance engagements for functions over which the CAE has responsibility need to be overseen by a party outside the internal audit activity.</p>
<p>Documentation: 3.59 Documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements. GAGAS contains specific requirements for documentation related to independence which may be in addition to the documentation that auditors have previously maintained. While insufficient documentation of an auditor's compliance with the independence standard does not impair independence, appropriate documentation is required under the GAGAS quality control and assurance requirements.</p>	
<p>Professional Judgment: 3.60 Auditors must use professional judgment in planning and performing audits and in reporting the results.</p>	<p>1220 – Due Professional Care: Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.</p> <p>1220.A1 – Internal auditors must exercise due professional care by considering the:</p> <ul style="list-style-type: none"> • Extent of work needed to achieve the engagement's objectives; • Relative complexity, materiality, or significance of matters to which assurance procedures are applied; • Adequacy and effectiveness of governance, risk management, and control processes; • Probability of significant errors, fraud, or noncompliance; and • Cost of assurance in relation to potential benefits. <p>1220.A2 – In exercising due professional care internal auditors must consider the use of technology based audit and other data analysis techniques.</p> <p>1220.A3 – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.</p>

2011 GAGAS	2011 IPPF
<p>3.64 Using professional judgment is important to auditors in carrying out all aspects of their professional responsibilities, including following the independence standards and related conceptual framework; maintaining objectivity and credibility; assigning competent staff to the audit; defining the scope of work; evaluating, documenting, and reporting the results of the work; and maintaining appropriate quality control over the audit process.</p>	<p>2200 – Engagement Planning: Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations.</p> <p>2210 – Engagement Objectives: Objectives must be established for each engagement.</p> <p>2220 – Engagement Scope: The established scope must be sufficient to satisfy the objectives of the engagement.</p> <p>2240 – Engagement Work Program: Internal auditors must develop and document work programs that achieve the engagement objectives.</p>
<p>Competence: 3.69 The staff assigned to perform the audit must collectively possess adequate professional competence needed to address the audit objectives and perform the work in accordance with GAGAS.</p>	<p>1200 – Proficiency and Due Professional Care: Engagements must be performed with proficiency and due professional care.</p> <p>1210 – Proficiency: Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.</p> <p>1210.A1 – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.</p> <p>Competency (Code of Ethics – Principles): Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.</p> <p>4. Competency (Code of Ethics – Rules of Conduct) Internal auditors:</p> <p>4.1 Shall engage only in those services for which they have the necessary knowledge, skills, and experience.</p> <p>4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.</p> <p>4.3 Shall continually improve their proficiency and the effectiveness and quality of their services.</p>
<p>3.70 The audit organization’s management should assess skill needs to consider whether its workforce has the essential skills that match those necessary to perform the particular audit. Accordingly, audit organizations should have a process for recruitment, hiring, continuous development, assignment, and evaluation of staff to maintain a competent workforce. The nature, extent, and formality of the process will depend on various factors such as the size of the audit organization, its structure, and its work.</p>	<p>2030 – Resource Management: The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.</p>

2011 GAGAS	2011 IPPF
<p>Technical Knowledge:</p> <p>3.72 The staff assigned to conduct an audit in accordance with GAGAS should collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that audit. The staff assigned to a GAGAS audit should collectively possess:</p> <ul style="list-style-type: none"> a. knowledge of GAGAS applicable to the type of work they are assigned and the education, skills, and experience to apply this knowledge to the work being performed; b. general knowledge of the environment in which the audited entity operates and the subject matter; c. skills to communicate clearly and effectively, both orally and in writing; and d. skills appropriate for the work being performed; for example, skills in <ul style="list-style-type: none"> (1) statistical or nonstatistical sampling if the work involves use of sampling; (2) information technology if the work involves review of information systems; (3) engineering if the work involves review of complex engineering data; (4) specialized audit methodologies or analytical techniques, such as the use of complex survey instruments, actuarial-based estimates, or statistical analysis tests, as applicable; or (5) specialized knowledge in subject matters, such as scientific, medical, environmental, educational, or any other specialized subject matter, if the work calls for such expertise. 	<p>1210 – Proficiency: Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.</p> <p>1210.A3 – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.</p> <p>2230 – Engagement Resource Allocation: Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.</p> <p>4. Competency (Code of Ethics – Rules of Conduct) Internal auditors:</p> <p>4.1 Shall engage only in those services for which they have the necessary knowledge, skills, and experience.</p>
<p>Continuing Professional Education:</p> <p>3.76 Auditors performing work in accordance with GAGAS, including planning, directing, performing audit procedures, or reporting on an audit conducted in accordance with GAGAS, should maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work in accordance with GAGAS should complete, every 2 years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. Auditors who are involved in any amount of planning, directing, or reporting on GAGAS audits and auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS audits should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2-year period) that enhances the auditor’s professional proficiency to perform audits. Auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year periods. Auditors hired or initially assigned to GAGAS audits after the beginning of an audit organization’s 2-year CPE period should complete a prorated number of CPE hours.</p> <p>3.78 Meeting CPE requirements is primarily the responsibility of individual auditors. The audit organization should have quality control procedures to help ensure that auditors meet the continuing education requirements, including documentation of the CPE completed....</p>	<p>1230 – Continuing Professional Development: Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.</p> <p>Practice Advisory 1230-1 Continuing Professional Development:</p> <p>1. Internal auditors are responsible for continuing their education to enhance and maintain their proficiency. Internal auditors need to stay informed about improvements and current developments in internal audit standards, procedures, and techniques, including The IIA’s International Professional Practices Framework (IPPF) guidance. Continuing professional education (CPE) may be obtained through membership, participation, and volunteering in professional organizations such as The IIA; attendance at conferences, seminars, and in-house training programs; completion of college and self study courses; and involvement in research projects.</p> <p>3. Internal auditors are encouraged to pursue CPE (related to their organization’s activities and industry) to maintain their proficiency with regard to the governance, risk, and control processes of their unique organization.</p>

2011 GAGAS	2011 IPPF
<p>CPE Requirements for Specialists:</p> <p>3.79 The audit team should determine that external specialists assisting in performing a GAGAS audit are qualified and competent in their areas of specialization; however, external specialists are not required to meet the GAGAS CPE requirements.</p> <p>3.80 The audit team should determine that internal specialists consulting on a GAGAS audit who are not involved in directing, performing audit procedures, or reporting on a GAGAS audit, are qualified and competent in their areas of specialization; however, these internal specialists are not required to meet the GAGAS CPE requirements.</p> <p>3.81 The audit team should determine that internal specialists, who are performing work in accordance with GAGAS as part of the audit team, including directing, performing audit procedures, or reporting on a GAGAS audit, comply with GAGAS, including the CPE requirements.</p>	
<p>Quality Control and Assurance:</p> <p>3.82 Each audit organization performing audits in accordance with GAGAS must:</p> <ul style="list-style-type: none"> a. establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, and b. have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years. 	<p>1310 – Requirements of the Quality Assurance and Improvement Program: The quality assurance and improvement program must include both internal and external assessments.</p> <p>Practice Advisory 1321-1 Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”:</p> <p>2. The phrase to be used may be: “in conformance with the <i>Standards</i>,” or “in conformity to the <i>Standards</i>.” To use one of these phrases, an external assessment is required at least once during each five-year period, along with ongoing monitoring and periodic internal assessments and these activities have concluded that the internal audit activity is in conformance with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i>. Initial use of the conformance phrase is not appropriate until an external review has demonstrated that the internal audit activity is in conformance with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i>.</p>
<p>System of Quality Control:</p> <p>3.84 Each audit organization should document its quality control policies and procedures and communicate those policies and procedures to its personnel. The audit organization should document compliance with its quality control policies and procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the audit organization’s compliance with its quality control policies and procedures. The form and content of such documentation are a matter of professional judgment and will vary based on the audit organization’s circumstances.</p> <p>3.85 An audit organization should establish policies and procedures in its system of quality control that collectively address:</p> <ul style="list-style-type: none"> a. leadership responsibilities for quality within the audit organization; b. independence, legal, and ethical requirements; c. initiation, acceptance, and continuance of audits; d. human resources; e. audit performance, documentation, and reporting; and f. monitoring of quality. 	<p>1300 – Quality Assurance and Improvement Program: The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.</p> <p>1311 – Internal Assessments: Internal assessments must include:</p> <ul style="list-style-type: none"> • Ongoing monitoring of the performance of the internal audit activity; and • Periodic reviews performed through self assessment or by other persons within the organization, with sufficient knowledge of internal audit practices.

2011 GAGAS	2011 IPPF
<p>External Peer Review:</p> <p>3.96 The audit organization should obtain an external peer review at least once every 3 years that is sufficient in scope to provide a reasonable basis for determining whether, for the period under review, the reviewed audit organization's system of quality control was suitably designed and whether the audit organization is complying with its quality control system in order to provide the audit organization with reasonable assurance of conforming with applicable professional standards.</p> <p>3.98 The peer review team should include the following elements in the scope of the peer review:</p> <ol style="list-style-type: none"> review of the audit organization's quality control policies and procedures; consideration of the adequacy and results of the audit organization's internal monitoring procedures; review of selected auditors' reports and related documentation; review of other documents necessary for assessing compliance with standards, for example, independence documentation, CPE records, and relevant human resource management files; and interviews with a selection of the reviewed audit organization's professional staff at various levels to assess their understanding of and compliance with relevant quality control policies and procedures. <p>3.100 The peer review team should prepare one or more written reports communicating the results of the peer review, including the following:</p> <ol style="list-style-type: none"> a description of the scope of the peer review, including any limitations; an opinion on whether the system of quality control of the reviewed audit organization's audit practices was adequately designed and complied with during the period reviewed to provide the audit organization with reasonable assurance of conforming with applicable professional standards; specification of the professional standards to which the reviewed audit organization is being held; and reference to a separate written communication, if issued under the peer review program. <p>3.101 The peer review team uses professional judgment in deciding the type of peer review report. The following are the types of peer review reports.</p> <ol style="list-style-type: none"> Peer Review Rating of Pass... Peer Review Rating of Pass with Deficiencies... Peer Review Rating of Fail... <p>3.104 The peer review team should meet the following criteria:</p> <ol style="list-style-type: none"> The review team collectively has current knowledge of GAGAS and government auditing. The organization conducting the peer review and individual review team members are independent (as defined in GAGAS) of the audit organization being reviewed, its staff, and the audits selected for the peer review. The review team collectively has sufficient knowledge of how to perform a peer review. Such knowledge may be obtained from on-the-job training, training courses, or a combination of both. Having personnel on the peer review team with prior experience on a peer review or internal inspection team is desirable. <p>3.105 An external audit organization should make its most recent peer review report publicly available.</p>	<p>1312 – External Assessments: External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The chief audit executive must discuss with the board:</p> <ul style="list-style-type: none"> The need for more frequent external assessments; and The qualifications and independence of the external reviewer or review team, including any potential conflict of interest. <p>1320 – Reporting on the Quality Assurance and Improvement Program: The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.</p> <p>2040 – Policies and Procedures: The chief audit executive must establish policies and procedures to guide the internal audit activity.</p>

2011 GAGAS	2011 IPPF
	<p>2120 – Risk Management: The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.</p> <p>2120.A1 – The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the</p> <ul style="list-style-type: none"> • Reliability and integrity of financial and operational information. • Effectiveness and efficiency of operations. • Safeguarding of assets; and • Compliance with laws, regulations, policies, procedures, and contracts.
	<p>2110 – Governance: The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:</p> <ul style="list-style-type: none"> • Promoting appropriate ethics and values within the organization; • Ensuring effective organizational performance management and accountability; • Communicating risk and control information to appropriate areas of the organization; and • Coordinating the activities of and communicating information among the board, external and internal auditors and management. <p>2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs and activities.</p> <p>2110.A2 – The internal audit activity must assess whether the information technology governance of the organization sustains and supports the organization's strategies and objectives.</p> <p>Practice Advisory 2110-1: Governance: Definition</p> <p>Practice Advisory 2110-2: Governance: Relationship with Risk and Control</p> <p>Practice Advisory 2110-3: Governance: Assessments</p>
<p>A1.08 Managers have fundamental responsibilities for carrying out government functions. Management of the audited entity is responsible for...</p> <p>d. establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management and financial information is reliable and properly reported;</p> <p>e. providing appropriate reports to those who oversee their actions and to the public in order to demonstrate accountability for the resources and authority used to carry out government programs and the results of these programs;...</p>	
	<p>2010 – Planning: The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.</p> <p>2010.A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.</p>
<p>Chapter 6: Field Work Standards for Performance Audits-Planning:</p> <p>6.06 Auditors must adequately plan and document the planning of the work necessary to address the audit objectives.</p>	<p>2200 – Engagement Planning: Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.</p>

2011 GAGAS	2011 IPPF
<p>6.07 Auditors must plan the audit to reduce audit risk to an appropriate level for the auditors to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. This determination is a matter of professional judgment. In planning the audit, auditors should assess significance and audit risk and apply these assessments in defining the audit objectives and the scope and methodology to address those objectives....</p>	<p>2210.A1 – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.</p> <p>Practice Advisory 2210.A1-1: Risk Assessment in Engagement Planning:</p> <p>4. Internal auditors summarize the results from the reviews of management's assessment of risk, the background information, and any survey work. The summary includes:</p> <ul style="list-style-type: none"> • Significant engagement issues and reasons for pursuing them in more depth. • Engagement objectives and procedures. • Methodologies to be used, such as technology-based audit and sampling techniques. • Potential critical control points, control deficiencies, and/or excess controls. • When applicable, reasons for not continuing the engagement or for significantly modifying engagement objectives.
<p>6.08 The objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included, and may also include the potential findings and reporting elements that the auditors expect to develop. Audit objectives can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria. The term "program" is used in GAGAS to include government entities, organizations, programs, activities, and functions.</p>	<p>2210 – Engagement Objectives: Objectives must be established for each engagement.</p> <p>2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.</p>
<p>6.09 Scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included.</p>	<p>2220 – Engagement Scope: The established scope must be sufficient to satisfy the objectives of the engagement.</p> <p>2220.A1 – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.</p> <p>2220.A2 – If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.</p> <p>Practice Advisory: 2200-2: Using a Top-down Risk-based Approach to Identify the Controls to Be Assessed in an Internal Audit Engagement:</p> <p>5. The internal audit scope needs to include all the controls required to provide reasonable assurance that the risks are effectively managed (subject to the comments in paragraph 9, below). These controls are referred to as key controls — those necessary to manage risk associated with a critical business objective. Only the key controls need to be assessed, although the internal auditor can choose to include an assessment of non-key controls (e.g., redundant, duplicative controls) if there is value to the business in providing such assurance. The internal auditor may also discuss with management whether the non-key controls are required.</p>
<p>6.10 The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. Audit procedures are the specific steps and tests auditors perform to address the audit objectives. Auditors should design the methodology to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditor's findings and conclusions in relation to the audit objectives and to reduce audit risk to an acceptable level.</p>	<p>2300 – Performing the Engagement: Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.</p> <p>2310 – Identifying Information: Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.</p> <p>Practice Advisory: 2300-1: Use of Personal Information in Conducting Engagements</p>

2011 GAGAS	2011 IPPF
<p>6.11 Auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following:</p> <ol style="list-style-type: none"> the nature and profile of the programs and the needs of potential users of the audit report; internal control as it relates to the specific objectives and scope of the audit; information systems controls for purposes of assessing audit risk and planning the audit within the context of the audit objectives; provisions of laws, regulations, contracts, and grant agreements, and potential fraud, and abuse that are significant within the context of the audit objectives; ongoing investigations or legal proceedings within the context of the audit objectives; and the results of previous audits and attestation engagements that directly relate to the current audit objectives. 	<p>2201 – Planning Considerations: In planning the engagement, internal auditors must consider:</p> <ul style="list-style-type: none"> The objectives of the activity being reviewed and the means by which the activity controls its performance; The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level; The adequacy and effectiveness of the activity's risk management and control processes compared to a relevant control framework or model; and The opportunities for making significant improvements to the activity's risk management and control processes.
<p>6.12 During planning, auditors should also:</p> <ol style="list-style-type: none"> identify the potential criteria needed to evaluate matters subject to audit; identify sources of audit evidence and determine the amount and type of evidence needed given audit risk and significance; evaluate whether to use the work of other auditors and specialists to address some of the audit objectives; assign sufficient staff and specialists with adequate collective professional competence and identify other resources needed to perform the audit; communicate about planning and performance of the audit to management officials, those charged with governance, and others as applicable; and prepare a written audit plan. 	<p>2210.A3 – Adequate criteria are needed to evaluate controls. Internal auditors must ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management to develop appropriate evaluation criteria.</p>
<p>Nature and Profile of the Program and User Needs:</p> <p>6.13 Auditors should obtain an understanding of the nature of the program or program component under audit and the potential use that will be made of the audit results or report as they plan a performance audit. The nature and profile of a program include:</p> <ol style="list-style-type: none"> visibility, sensitivity, and relevant risks associated with the program under audit; age of the program or changes in its conditions; the size of the program in terms of total dollars, number of citizens affected, or other measures; level and extent of review or other forms of independent oversight; program's strategic plan and objectives; and external factors or conditions that could directly affect the program. 	

2011 GAGAS	2011 IPPF
<p>Internal Control:</p> <p>6.16 Auditors should obtain an understanding of internal control that is significant within the context of the audit objectives. For internal control that is significant within the context of the audit objectives, auditors should assess whether internal control has been properly designed and implemented and should perform procedures designed to obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls.... Thus, when obtaining an understanding of internal control significant to the audit objectives, auditors should also determine whether it is necessary to evaluate information systems controls.</p> <p>6.22 Internal auditing is an important part of overall governance, accountability, and internal control. A key role of many internal audit organizations is to provide assurance that internal controls are in place to adequately mitigate risks and achieve program goals and objectives. The auditor may determine that it is appropriate to use the work of the internal auditors in the auditor's assessment of the effectiveness of design or operation of internal controls that are significant within the context of the audit objectives.</p>	<p>2130 – Control: The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.</p> <p>2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:</p> <ul style="list-style-type: none"> • Reliability and integrity of financial and operational information; • Effectiveness and efficiency of operations and programs; • Safeguarding of assets; and • Compliance with laws, regulations, policies, procedures, and contracts.
<p>6.24 An organization's use of information systems controls may be extensive; however, auditors are primarily interested in those information systems controls that are significant to the audit objectives. Information systems controls are significant to the audit objectives if auditors determine that it is necessary to evaluate the effectiveness of information systems controls in order to obtain sufficient, appropriate evidence. When information systems controls are determined to be significant to the audit objectives or when the effectiveness of significant controls is dependent on the effectiveness of information systems controls, auditors should then evaluate the design and operating effectiveness of such controls. This evaluation would include other information systems controls that impact the effectiveness of the significant controls or the reliability of information used in performing the significant controls. Auditors should obtain a sufficient understanding of information systems controls necessary to assess audit risk and plan the audit within the context of the audit objectives.</p> <p>6.27 Auditors should determine which audit procedures related to information systems controls are needed to obtain sufficient, appropriate evidence to support the audit findings and conclusions. The following factors may assist auditors in making this determination:</p> <p style="padding-left: 20px;">d. Evaluating the effectiveness of information systems controls as an audit objective: When evaluating the effectiveness of information systems controls is directly a part of an audit objective, auditors should test information systems controls necessary to address the audit objectives....</p>	<p>1210.A3 – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.</p>
<p>Provisions of Laws, Regulations, Contracts, and Grant Agreements:</p> <p>6.28 Auditors should identify any provisions of laws, regulations, contracts or grant agreements that are significant within the context of the audit objectives and assess the risk that noncompliance with provisions of laws, regulations, contracts or grant agreements could occur. Based on that risk assessment, the auditors should design and perform procedures to obtain reasonable assurance of detecting instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements that are significant within the context of the audit objectives.</p>	

2011 GAGAS	2011 IPPF
<p>Fraud:</p> <p>6.30 In planning the audit, auditors should assess risks of fraud occurring that is significant within the context of the audit objectives. Fraud involves obtaining something of value through willful misrepresentation. Whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative system and is beyond auditors' professional responsibility. Audit team members should discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud. Auditors should gather and assess information to identify risks of fraud that are significant within the scope of the audit objectives or that could affect the findings and conclusions.</p> <p>A.10 In some circumstances, conditions such as the following might indicate a heightened risk of fraud:</p> <ul style="list-style-type: none"> a. economic, programmatic, or entity operating conditions threaten the entity's financial stability, viability, or budget; b. the nature of the entity's operations provide opportunities to engage in fraud; c. management's monitoring of compliance with policies, laws, and regulations is inadequate; d. the organizational structure is unstable or unnecessarily complex; e. communication and/or support for ethical standards by management is lacking; f. management is willing to accept unusually high levels of risk in making significant decisions; g. the entity has a history of impropriety, such as previous issues with fraud, waste, abuse, or questionable practices, or past audits or investigations with findings of questionable or criminal activity; h. operating policies and procedures have not been developed or are outdated; i. key documentation is lacking or does not exist; j. asset accountability or safeguarding procedures is lacking; k. improper payments; l. false or misleading information; m. a pattern of large procurements in any budget line with remaining funds at year end, in order to "use up all of the funds available;" and n. unusual patterns and trends in contracting, procurement, acquisition, and other activities of the entity or program. <p>6.31 When auditors identify factors or risks related to fraud that has occurred or is likely to have occurred that they believe are significant within the context of the audit objectives, they should design procedures to obtain reasonable assurance of detecting any such fraud. Assessing the risk of fraud is an ongoing process throughout the audit and relates not only to planning the audit but also to evaluating evidence obtained during the audit.</p> <p>6.32 When information comes to the auditors' attention indicating that fraud, significant within the context of the audit objectives, may have occurred, auditors should extend the audit steps and procedures, as necessary, to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings....</p>	<p>1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.</p> <p>2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.</p>

2011 GAGAS	2011 IPPF
<p>Abuse:</p> <p>6.34...as part of a GAGAS audit, if auditors become aware of abuse that could be quantitatively or qualitatively significant to the program under audit, auditors should apply audit procedures specifically directed to ascertain the potential effect on the program under audit within the context of the audit objectives. After performing additional work, auditors may discover that the abuse represents potential fraud or noncompliance with provisions of laws, regulations contracts, or grant agreements.</p>	<p>Practice Advisory 2400-1 – Legal Considerations in Communicating Results:</p> <p>1. The internal auditor needs to exercise caution when communicating noncompliance with laws, regulations, and other legal issues. Developing policies and procedures regarding the handling of those matters as well as a close working relationship with other appropriate areas (e.g., legal counsel and compliance) is strongly encouraged.</p>
<p>Ongoing Investigations and Legal Proceedings:</p> <p>6.35...When investigations or legal proceedings are initiated or in process, auditors should evaluate the impact on the current audit. In some cases, it may be appropriate for the auditors to work with investigators or legal authorities, or withdraw from or defer further work on the audit or a portion of the audit to avoid interfering with an ongoing investigation or legal proceeding.</p>	
<p>Previous Audits and Attestation Engagements:</p> <p>6.36 Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives. When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, performance audits, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.</p>	<p>2500 – Monitoring Progress: The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.</p> <p>2500.A1 – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.</p>
<p>Identifying Audit Criteria:</p> <p>6.37 Auditors should identify criteria. Criteria represent the laws, regulations, contracts, grant agreements, standards, specific requirements, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations included in the report. Auditors should use criteria that are relevant to the audit objectives and permit consistent assessment of the subject matter.</p>	<p>2210.A3 – Adequate criteria are needed to evaluate controls. Internal auditors must ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management to develop appropriate evaluation criteria.</p>
<p>Identifying Sources of Evidence and the Amount and Type of Evidence Required:</p> <p>6.38 Auditors should identify potential sources of information that could be used as evidence. Auditors should determine the amount and type of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives and adequately plan audit work.</p>	<p>2310 – Identifying Information: Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.</p>
<p>6.39 If auditors believe that it is likely that sufficient, appropriate evidence will not be available, they may revise the audit objectives or modify the scope and methodology and determine alternative procedures to obtain additional evidence or other forms of evidence to address the current audit objectives. Auditors should also evaluate whether the lack of sufficient, appropriate evidence is due to internal control deficiencies or other program weaknesses, and whether the lack of sufficient, appropriate evidence could be the basis for audit findings.</p>	
<p>Using the Work of Others:</p> <p>6.40 Auditors should determine whether other auditors have conducted, or are conducting, audits of the program that could be relevant to the current audit objectives.</p>	<p>2050 – Coordination: The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.</p>

2011 GAGAS	2011 IPPF
<p>6.41... If auditors use the work of other auditors, they should perform procedures that provide a sufficient basis for using that work. Auditors should obtain evidence concerning the other auditors' qualifications and independence and should determine whether the scope, quality, and timing of the audit work performed by the other auditors is adequate for reliance in the context of the current audit objectives...</p>	<p>Practice Advisory 2050-3 Relying on the Work of Other Assurance Providers:</p> <p>10. The level of reliance that can be placed on another assurance provider will be impacted by the factors mentioned earlier: independence, objectivity, competencies, elements of practice, adequacy of execution of audit work, and sufficiency of audit evidence to support the given level of assurance. As the risk or significance of the activity reviewed by the other assurance provider increases, the internal auditor should gather more information on these factors and may need to obtain additional audit evidence to supplement the work done by the other assurance provider. To increase the level of reliance on the results, the internal audit activity may retest results of the other assurance provider.</p>
<p>6.42... If auditors intend to use the work of specialists, they should assess the professional qualifications and independence of the specialists.</p> <p>6.43 Auditors' assessment of professional qualifications of the specialist involves the following:</p> <ol style="list-style-type: none"> the professional certification, license, or other recognition of the competence of the specialist in his or her field, as appropriate; the reputation and standing of the specialist in the views of peers and others familiar with the specialist's capability or performance; the specialist's experience and previous work in the subject matter; and the auditors' prior experience in using the specialist's work. 	<p>1210.A1 – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.</p> <p>Practice Advisory 1210.A1-1: Obtaining External Service Providers to Support or Complement the Internal Audit Activity:</p> <p>4. When the CAE intends to use and rely on the work of an external service provider, the CAE needs to consider the competence, independence, and objectivity of the external service provider as it relates to the particular assignment to be performed. The assessment of competency, independence, and objectivity is also needed when the external service provider is selected by senior management or the board, and the CAE intends to use and rely on the external service provider's work. When the selection is made by others and the CAE's assessment determines that he or she should not use and rely on the work of the external service provider, communication of such results is needed to senior management or the board, as appropriate.</p> <p>5. The CAE determines that the external service provider possesses the necessary knowledge, skills, and other competencies to perform the engagement by considering:</p> <ul style="list-style-type: none"> Professional certification, license, or other recognition of the external service provider's competence in the relevant discipline. Membership of the external service provider in an appropriate professional organization and adherence to that organization's code of ethics. The reputation of the external service provider. This may include contacting others familiar with the external service provider's work. The external service provider's experience in the type of work being considered. The extent of education and training received by the external service provider in disciplines that pertain to the particular engagement. The external service provider's knowledge and experience in the industry in which the organization operates.
<p>6.44 Auditors' assessment of the independence of specialists who perform audit work includes identifying threats and applying any necessary safeguards in the same manner as they would for auditors performing work on those audits.</p>	

2011 GAGAS	2011 IPPF
<p>6.46 If planning to use the work of a specialist, auditors should document the nature and scope of the work to be performed by the specialist, including</p> <ol style="list-style-type: none"> the objectives and scope of the specialist's work; the intended use of the specialist's work to support the audit objectives; the specialist's procedures and findings so they can be evaluated and related to other planned audit procedures; and the assumptions and methods used by the specialist. 	<p>Practice Advisory 1210.A1-1: Obtaining External Service Providers to Support or Complement the Internal Audit Activity:</p> <p>9. To ascertain that the scope of work is adequate for the purposes of the internal audit activity, the CAE obtains sufficient information regarding the scope of the external service provider's work. It may be prudent to document these and other matters in an engagement letter or contract...</p>
<p>Assigning Staff and Other Resources:</p> <p>6.45 Management should assign sufficient staff and specialists with adequate collective professional competence to perform the audit. Staffing an audit includes, among other things:</p> <ol style="list-style-type: none"> assigning staff and specialists with the collective knowledge, skills, and experience appropriate for the job; assigning a sufficient number of staff and supervisors to the audit; providing for on-the-job training of staff; and engaging specialists when necessary. 	<p>2030 – Resource Management: The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.</p> <p>Practice Advisory 2030-1: Resource Management</p>
<p>Communicating with Management, Those Charged with Governance, and Others:</p> <p>6.47 Auditors should communicate an overview of the objectives, scope, and methodology and the timing of the performance audit and planned reporting (including any potential restrictions on the report), unless doing so could significantly impair the auditors' ability to obtain sufficient, appropriate evidence to address the audit objectives, such as when the auditors plan to conduct unannounced cash counts or perform procedures related to indications of fraud. Auditors should communicate with the following parties, as applicable:</p> <ol style="list-style-type: none"> management of the audited entity, including those with sufficient authority and responsibility to implement corrective action in the program or activity being audited; those charged with governance; the individuals contracting for or requesting audit services, such as contracting officials or grantees; and the cognizant legislative committee, when auditors perform the audit pursuant to a law or regulation or they conduct the work for the legislative committee that has oversight of the audited entity. 	<p>Practice Advisory 2200-1: Engagement Planning:</p> <p>4. The internal auditor informs those in management who need to know about the engagement, conducts meetings with management responsible for the activity under review, summarizes and distributes the discussions and any conclusions reached from the meetings, and retains the documentation in the engagement working papers.</p> <p>Topics of discussion may include:</p> <ul style="list-style-type: none"> Planned engagement objectives and scope of work. The resources and timing of engagement work. Key factors affecting business conditions and operations of the areas being reviewed, including recent changes in internal and external environment. Concerns or requests from management.
<p>6.48 In those situations where there is not a single individual or group that both oversees the strategic direction of the audited entity and the fulfillment of its accountability obligations or in other situations where the identity of those charged with governance is not clearly evident, auditors should document the process followed and conclusions reached for identifying the appropriate individuals to receive the required auditor communications.</p>	<p>2440 – Disseminating Results: The chief audit executive must communicate results to the appropriate parties.</p> <p>2440.A1 – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.</p>
<p>6.49 Determining the form, content, and frequency of the communication is a matter of professional judgment, although written communication is preferred. Auditors may use an engagement letter to communicate the information. Auditors should document this communication.</p>	<p>Practice Advisory 2200-1: Engagement Planning:</p> <p>5. The CAE determines how, when, and to whom engagement results will be communicated. The internal auditor documents this and communicates it to management, to the extent deemed appropriate, during the planning phase of the engagement. The internal auditor communicates to management subsequent changes that affect the timing or reporting of engagement results.</p>

2011 GAGAS	2011 IPPF
<p>6.50 If an audit is terminated before it is completed and an audit report is not issued, auditors should document the results of the work to the date of termination and why the audit was terminated....</p>	
<p>Preparing a Written Audit Plan:</p> <p>6.51 Auditors must prepare a written audit plan for each audit.... Auditors should update the plan, as necessary, to reflect any significant changes to the plan made during the audit.</p>	<p>2240 – Engagement Work Program: Internal auditors must develop and document work programs that achieve the engagement objectives.</p> <p>2240.A1 – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.</p> <p>Practice Advisory 2200-1: Engagement Planning:</p> <p>1. The internal auditor plans and conducts the engagement, with supervisory review and approval. Prior to the engagement's commencement, the internal auditor prepares an engagement program that:</p> <ul style="list-style-type: none"> • States the objectives of the engagement. • Identifies technical requirements, objectives, risks, processes, and transactions that are to be examined. • States the nature and extent of testing required. • Documents the internal auditor's procedures for collecting, analyzing, interpreting, and documenting information during the engagement. • Is modified, as appropriate, during the engagement with the approval of the chief audit executive (CAE), or his designee.
<p>Supervision: 6.53 Audit supervisors or those designated to supervise auditors must properly supervise audit staff.</p>	<p>2340 – Engagement Supervision: Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.</p> <p>Practice Advisory 2340-1: Engagement Supervision</p>
<p>Obtaining Sufficient, Appropriate Evidence: 6.56 Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.</p>	<p>2300 – Performing the Engagement: Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.</p>
<p>6.57 ...Appropriateness is the measure of the quality of evidence that encompasses its relevance, validity, and reliability in providing support for findings and conclusions related to the audit objectives. In assessing the overall appropriateness of evidence, auditors should assess whether the evidence is relevant, valid, and reliable. Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions related to the audit objectives. In assessing the sufficiency of evidence, auditors should determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable.</p>	<p>2310 – Identifying Information: Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.</p>
<p>6.58 In assessing evidence, auditors should evaluate whether the evidence taken as a whole is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions....</p>	<p>2320 – Analysis and Evaluation: Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.</p>
	<p>Practice Advisory: 2320-1: Analytic Procedures Practice Advisory 2320-2: Root Cause Analysis</p>
<p>6.62 Testimonial evidence may be useful in interpreting or corroborating documentary or physical information. Auditors should evaluate the objectivity, credibility, and reliability of the testimonial evidence. Documentary evidence may be used to help verify, support, or challenge testimonial evidence.</p>	

2011 GAGAS	2011 IPPF
<p>6.65 When auditors use information provided by officials of the audited entity as part of their evidence, they should determine what the officials of the audited entity or other auditors did to obtain assurance over the reliability of the information....</p>	
<p>6.66 Auditors should assess the sufficiency and appropriateness of computer-processed information regardless of whether this information is provided to auditors or auditors independently extract it....</p>	
<p>Sufficiency: 6.67...In determining the sufficiency of evidence, auditors should determine whether enough appropriate evidence exists to address the audit objectives and support the findings and conclusions.</p>	
<p>Overall Assessment of Evidence: 6.69 Auditors should determine the overall sufficiency and appropriateness of evidence to provide a reasonable basis for the findings and conclusions, within the context of the audit objectives....Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence.</p>	
<p>6.71 When assessing the sufficiency and appropriateness of evidence, auditors should evaluate the expected significance of evidence to the audit objectives, findings, and conclusions, available corroborating evidence, and the level of audit risk. The steps to assess evidence may depend on the nature of the evidence, how the evidence is used in the audit or report, and the audit objectives.</p> <ul style="list-style-type: none"> a. Evidence is sufficient and appropriate when it provides a reasonable basis for supporting the findings or conclusions within the context of the audit objectives. b. Evidence is not sufficient or not appropriate when: <ul style="list-style-type: none"> (1) using the evidence carries an unacceptably high risk that it could lead the auditor to reach an incorrect or improper conclusion; (2) the evidence has significant limitations, given the audit objectives and intended use of the evidence; or (3) the evidence does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions. Auditors should not use such evidence as support for findings and conclusions. 	
<p>6.72...When the auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, they should apply additional procedures, as appropriate. Such procedures include</p> <ul style="list-style-type: none"> a. seeking independent, corroborating evidence from other sources; b. redefining the audit objectives or limiting the audit scope to eliminate the need to use the evidence; c. presenting the findings and conclusions so that the supporting evidence is sufficient and appropriate and describing in the report the limitations or uncertainties with the validity or reliability of the evidence, if such disclosure is necessary to avoid misleading the report users about the findings or conclusions; and d. determining whether to report the limitations or uncertainties as a finding, including any related, significant internal control deficiencies. 	

2011 GAGAS	2011 IPPF
<p>Developing Elements of a Finding:</p> <p>6.73 Auditors should plan and perform procedures to develop the elements of a finding necessary to address the audit objectives. In addition, if auditors are able to sufficiently develop the elements of a finding, they should develop recommendations for corrective action if they are significant within the context of the audit objectives. The elements needed for a finding are related to the objectives of the audit. Thus, a finding or set of findings is complete to the extent that the audit objectives are addressed and the report clearly relates those objectives to the elements of a finding. For example, an audit objective may be to determine the current status or condition of program operations or progress in implementing legislative requirements, and not the related cause or effect. In this situation, developing the condition would address the audit objective and development of the other elements of a finding would not be necessary.</p> <p>6.74 The element of criteria is discussed in paragraph 6.37, and the other elements of a finding – condition, effect, and cause – are discussed in paragraphs 6.75 through 6.77.</p> <p>6.75 Condition: Condition is a situation that exists. The condition is determined and documented during the audit.</p> <p>6.76 Cause: The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria.</p> <p>6.77 Effect or potential effect: The effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the audit objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, “effect” is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.</p>	<p>Practice Advisory 2410-1: Communication Criteria:</p> <p>6. Observations are pertinent statements of fact. The internal auditor communicates those observations necessary to support or prevent misunderstanding of the internal auditor's conclusions and recommendations. The internal auditor may communicate less significant observations or recommendations informally.</p> <p>7. Engagement observations and recommendations emerge by a process of comparing criteria (the correct state) with condition (the current state). Whether or not there is a difference, the internal auditor has a foundation on which to build the report. When conditions meet the criteria, communication of satisfactory performance may be appropriate. Observations and recommendations are based on the following attributes:</p> <ul style="list-style-type: none"> • Criteria: The standards, measures, or expectations used in making an evaluation and/or verification (the correct state). • Condition: The factual evidence that the internal auditor found in the course of the examination (the current state). • Cause: The reason for the difference between expected and actual conditions. • Effect: The risk or exposure the organization and/or others encounter because the condition is not consistent with the criteria (the impact of the difference). In determining the degree of risk or exposure, internal auditors should consider the effect their engagement observations and recommendations may have on the organization's operations and financial statements.... <p>8. Conclusions and opinions are the internal auditor's evaluations of the effects of the observations and recommendations on the activities reviewed. They usually put the observations and recommendations in perspective based upon their overall implications. Clearly identify any engagement conclusions in the engagement report. Conclusions may encompass the entire scope of an engagement or specific aspects....</p> <p>9. The internal auditor may communicate recommendations for improvements, acknowledgments of satisfactory performance, and corrective actions. Recommendations are based on the internal auditor's observations and conclusions....</p>
<p>Early Communication of Deficiencies:</p> <p>6.78 Auditors report deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse. For some matters, early communication to those charged with governance or management may be important because of their relative significance and the urgency for corrective follow-up action. Further, when a control deficiency results in noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse, early communication is important to allow management to take prompt corrective action to prevent further noncompliance. When a deficiency is communicated early, the reporting requirements in paragraph 7.18 through 7.23 still apply.</p>	<p>Practice Advisory 2410-1: Communication Criteria:</p> <p>14. Interim reports are written or oral and may be transmitted formally or informally. Use interim reports to communicate information that requires immediate attention....</p>

2011 GAGAS	2011 IPPF
<p>Audit Documentation:</p> <p>6.79 Auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions. An experienced auditor means an individual (whether internal or external to the audit organization) who possesses the competencies and skills that would have enabled him or her to conduct the performance audit. These competencies and skills include an understanding of:</p> <ol style="list-style-type: none"> (1) the performance audit processes; (2) GAGAS and applicable legal and regulatory requirements; (3) the subject matter associated with achieving the audit objectives; and (4) issues related to the audited entity's environment. 	<p>2330 – Documenting Information: Internal auditors must document relevant information to support the conclusions and engagement results.</p> <p>Practice Advisory 2330-1: Documenting Information</p>
<p>6.81 Auditors should design the form and content of audit documentation to meet the circumstances of the particular audit. The audit documentation constitutes the principal record of the work that the auditors have performed in accordance with standards and the conclusions that the auditors have reached...</p> <p>6.83 Auditors should document the following:</p> <ol style="list-style-type: none"> a. the objectives, scope, and methodology of the audit; b. the work performed and evidence obtained to support significant judgments and conclusions, including descriptions of transactions and records examined (for example, by listing file numbers, case numbers, or other means of identifying specific documents examined, but copies of documents examined or detailed listings of information from those documents are not required); and c. supervisory review, before the audit report is issued, of the evidence that supports the findings, conclusions, and recommendations contained in the audit report. 	<p>Practice Advisory 2330-1: Documenting Information:</p> <ol style="list-style-type: none"> 1. Internal auditors prepare working papers. Working papers document the information obtained, the analyses made, and the support for the conclusions and engagement results. Internal audit management reviews the prepared working papers. 2. Engagement working papers generally: <ul style="list-style-type: none"> • Aid in the planning, performance, and review of engagements. • Provide the principal support for engagement results. • Document whether engagement objectives were achieved. • Support the accuracy and completeness of the work performed. • Provide a basis for the internal audit activity's quality assurance and improvement program. • Facilitate third-party reviews. 3. The organization, design, and content of engagement working papers depend on the engagement's nature and objectives and the organization's needs. Engagement working papers document all aspects of the engagement process from planning to communicating results. The internal audit activity determines the media used to document and store working papers. 4. The chief audit executive establishes working paper policies for the various types of engagements performed. Standardized engagement working papers, such as questionnaires and audit programs, may improve the engagement's efficiency and facilitate the delegation of engagement work. Engagement working papers may be categorized as permanent or carry-forward engagement files that contain information of continuing importance.
<p>6.84 When auditors do not comply with applicable GAGAS requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit, the auditors should document the departure from the GAGAS requirements and the impact on the audit and on the auditors' conclusions. This applies to departures from unconditional requirements and from presumptively mandatory requirements when alternative procedures performed in the circumstances were not sufficient to achieve the objectives of the standard.</p>	<p>1322 – Disclosure of Nonconformance: When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.</p>

2011 GAGAS	2011 IPPF
<p>3.92 When performing GAGAS audits, audit organizations should have policies and procedures for the safe custody and retention of audit documentation for a time sufficient to satisfy legal, regulatory, and administrative requirements for records retention...For audit documentation that is retained electronically, the audit organization should establish effective information systems methods concerning accessing and updating the audit documentation.</p>	<p>2330.A2 – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization’s guidelines and any pertinent regulatory or other requirements.</p> <p>Practice Advisory 2330.A2-1: Retention of Records:</p> <ol style="list-style-type: none"> 1. Engagement record retention requirements vary among jurisdictions and legal environments. 2. The chief audit executive develops a written retention policy that meets organizational needs and legal requirements of the jurisdictions within which the organization operates. 3. The record retention policy needs to include appropriate arrangements for the retention of records related to engagements performed by external service providers.
	<p>2330.A1 – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.</p> <p>Practice Advisory: 2330.A1-2: Granting Access to Engagement Records</p>
<p>Chapter 7 Reporting Standards for Performance Audits: Reporting:</p> <p>7.03 Auditors must issue audit reports communicating the results of each completed performance audit.</p>	<p>2400 – Communicating Results: Internal auditors must communicate the results of engagements.</p>
	<p>Practice Advisory: 2400-1: Legal Considerations in Communicating Results</p>
<p>7.04 Auditors should use a form of the audit report that is appropriate for its intended use and is in writing or in some other retrievable form....</p>	
<p>7.06 If an audit is terminated before it is completed and an audit report is not issued, auditors should follow the guidance in paragraph 6.50.</p>	
<p>7.07 If, after the report is issued, the auditors discover that they did not have sufficient, appropriate evidence to support the reported findings or conclusions, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the organizations requiring or arranging for the audits, and other known users, so that they do not continue to rely on the findings or conclusions that were not supported. If the report was previously posted to the auditors’ publicly accessible website, the auditors should remove the report and post a public notification that the report was removed. The auditors should then determine whether to conduct additional audit work necessary to reissue the report, including any revised findings or conclusions or repost the original report if the additional audit work does not result in a change in findings or conclusions.</p>	<p>2421 – Errors and Omissions: If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.</p>

2011 GAGAS	2011 IPPF
<p>Report Contents:</p> <p>7.08 Auditors should prepare audit reports that contain</p> <ul style="list-style-type: none"> (1) the objectives, scope, and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with GAGAS; (4) a summary of the views of responsible officials; and (5) if applicable, the nature of any confidential or sensitive information omitted. <p>Objectives, Scope, and Methodology:</p> <p>7.09 Auditors should include in the report a description of the audit objectives and the scope and methodology used for addressing the audit objectives.</p>	<p>2410 – Criteria for Communicating: Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.</p> <p>2410.A1 – Final communication of engagement results must, where appropriate, contain the internal auditors' overall opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.</p> <p>2410.A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.</p>
<p>7.10...Auditors should communicate audit objectives in the audit report in a clear, specific, neutral, and unbiased manner that includes relevant assumptions....</p>	<p>Practice Advisory 2410-1: Communication Criteria:</p> <p>3. Purpose statements describe the engagement objectives and may inform the reader why the engagement was conducted and what it was expected to achieve.</p>
<p>7.11 Auditors should describe the scope of the work performed and any limitations, including issues that would be relevant to likely users, so that they could reasonably interpret the findings, conclusions, and recommendations in the report without being misled. Auditors should also report any significant constraints imposed on the audit approach by information limitations or scope impairments, including denials or excessive delays of access to certain records or individuals.</p>	<p>Practice Advisory 2410-1: Communication Criteria:</p> <p>4. Scope statements identify the audited activities and may include supportive information such as time period reviewed and related activities not reviewed to delineate the boundaries of the engagement. They may describe the nature and extent of engagement work performed.</p>
<p>7.12 In describing the work conducted to address the audit objectives and support the reported findings and conclusions, auditors should, as applicable, explain the relationship between the population and the items tested; identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any significant limitations or uncertainties based on the auditors' overall assessment of the sufficiency and appropriateness of the evidence in the aggregate.</p>	
<p>7.13 In reporting audit methodology, auditors should explain how the completed audit work supports the audit objectives, including the evidence gathering and analysis techniques, in sufficient detail to allow knowledgeable users of their reports to understand how the auditors addressed the audit objectives. Auditors may include a description of the procedures performed as part of their assessment of the sufficiency and appropriateness of information used as audit evidence. Auditors should identify significant assumptions made in conducting the audit; describe comparative techniques applied; describe the criteria used; and, when sampling significantly supports the auditors' findings, conclusions, or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.</p>	
<p>Reporting Findings: 7.14 In the audit report, auditors should present sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives.... If auditors are able to sufficiently develop the elements of a finding, they should provide recommendations for corrective action if they are significant within the context of the audit objectives....</p>	<p>2420 – Quality of Communications: Communications must be accurate, objective, clear, concise, constructive, complete, and timely.</p>

2011 GAGAS	2011 IPPF
<p>7.15 Auditors should describe in their report limitations or uncertainties with the reliability or validity of evidence if (1) the evidence is significant to the findings and conclusions within the context of the audit objectives and (2) such disclosure is necessary to avoid misleading the report users about the findings and conclusions.... Auditors should describe the limitations or uncertainties regarding evidence in conjunction with the findings and conclusions, in addition to describing those limitations or uncertainties as part of the objectives, scope, and methodology....</p>	
<p>7.16 Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value, or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately.</p>	
<p>7.17...When reporting on the results of their work, auditors should disclose significant facts relevant to the objectives of their work and known to them which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal significant improper or illegal practices.</p>	
<p>7.18 Auditors should also report deficiencies in internal control, instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that have occurred or are likely to have occurred and are significant within the context of the audit objectives.</p>	
<p>Deficiencies in Internal Control:</p> <p>7.19 Auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed. When auditors detect deficiencies in internal control that are not significant to the objectives of the audit but warrant the attention of those charged with governance, they should include those deficiencies either in the report or communicate those deficiencies in writing to audited entity officials. Auditors should refer to that written communication in the audit report if the written communication is separate from the audit report. When auditors detect deficiencies that do warrant the attention of those charged with governance, the determination of whether and how to communicate such deficiencies to audited entity officials is a matter of professional judgment.</p>	
<p>Fraud, Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements, and Abuse:</p> <p>7.21 When auditors conclude, based on sufficient, appropriate evidence, that fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse either has occurred or is likely to have occurred which is significant within the context of the audit objectives, they should report the matter as a finding. Whether a particular act is, in fact, fraud or noncompliance with provisions of laws, regulations, contracts or grant agreements may have to await final determination by a court of law or other adjudicative body.</p>	

2011 GAGAS	2011 IPPF
<p>7.22 When auditors detect instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that are not significant within the context of the audit objectives but warrant the attention of those charged with governance, they should communicate those findings in writing to audited entity officials. When auditors detect any instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that do not warrant the attention of those charged with governance, the auditors' determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment.</p>	
<p>Reporting Findings Directly to Parties Outside the Audited Entity:</p> <p>7.24 Auditors should report known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the audited entity in the following two circumstances.</p> <ol style="list-style-type: none"> a. When entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties. b. When entity management fails to take timely and appropriate steps to respond to known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that: <ol style="list-style-type: none"> (1) is significant to the findings and conclusions and (2) involves funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the entity's failure to take timely and appropriate steps directly to the funding agency. 	<p>Practice Advisory: 2440.A2-1: Communications Outside the Organization</p> <p>Practice Advisory: 2440-2: Communicating Sensitive Information Within and Outside the Chain of Command:</p> <p>11. An internal auditor has a professional duty and an ethical responsibility to carefully evaluate all evidence and the reasonableness of his or her conclusions and decide whether further actions are needed to protect the organization's interests and stakeholders, the outside community, or the institutions of society. Also, the auditor will need to consider the duty of confidentiality imposed by The IIA's Code of Ethics to respect the value and ownership of information and avoid disclosing it without appropriate authority unless there is a legal or professional obligation to do so. During this evaluation process, the auditor may seek the advice of legal counsel and, if appropriate, other experts. Those discussions may be helpful in providing a different perspective on the circumstances as well as offering opinions about the potential impact and consequences of possible actions. The manner in which the internal auditor seeks to resolve this type of complex and sensitive situation may create reprisals and potential liability.</p> <p>12. Ultimately, the internal auditor makes a professional decision about his or her obligations to the employer. The decision to communicate outside the normal chain of command needs to be based on a well-informed opinion that the wrongdoing is supported by substantial, credible evidence and that a legal or regulatory imperative, or a professional or ethical obligation, requires further action.</p>
<p>7.25 The reporting in paragraph 7.24 is in addition to any legal requirements for the auditor to report such information directly to parties outside the audited entity. Auditors should comply with these requirements even if they have resigned or been dismissed from the audit prior to its completion. Internal audit organizations do not have a duty to report outside the audited entity unless required by law, rule, regulation, or policy.</p> <p>See paragraph 7.44b for reporting standards for internal audit organizations when reporting externally.</p>	
<p>7.26 Auditors should obtain sufficient, appropriate evidence, such as confirmation from outside parties, to corroborate assertions by management of the audited entity that it has reported such findings in accordance with laws, regulations, or funding agreements. When auditors are unable to do so, they should report such information directly as discussed in paragraph 7.24 and 7.25.</p>	
<p>Conclusions: 7.27 Auditors should report conclusions based on the audit objectives and the audit findings.</p>	

2011 GAGAS	2011 IPPF
<p>Recommendations:</p> <p>7.28 Auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended.</p>	<p>Practice Advisory 2410-1: Communication Criteria:</p> <p>9. The internal auditor may communicate recommendations for improvements, acknowledgments of satisfactory performance, and corrective actions. Recommendations are based on the internal auditor's observations and conclusions. They call for action to correct existing conditions or improve operations and may suggest approaches to correcting or enhancing performance as a guide for management in achieving desired results. Recommendations can be general or specific. For example, under some circumstances, the internal auditor may recommend a general course of action and specific suggestions for implementation. In other circumstances, the internal auditor may suggest further investigation or study.</p>
<p>Reporting Auditors' Compliance with GAGAS:</p> <p>7.30 When auditors comply with all applicable GAGAS requirements, they should use the following language, which represents an unmodified GAGAS compliance statement, in the audit report to indicate that they performed the audit in accordance with GAGAS. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.</p> <p>7.31 When auditors do not comply with all applicable GAGAS requirements, they should include a modified GAGAS compliance statement in the audit report. For performance audits, auditors should use a statement that includes either:</p> <ol style="list-style-type: none"> (1) the language in 7.30, modified to indicate the requirements that were not followed; or (2) language that the auditor did not follow GAGAS. 	<p>1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”: The chief audit executive may state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the quality assurance and improvement program support this statement.</p> <p>2430 – Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”: Internal auditors may report that their engagements are “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing” only if the results of the quality assurance and improvement program support the statement.</p> <p>2431 – Engagement Disclosure of Nonconformance: When nonconformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose the:</p> <ul style="list-style-type: none"> • Principle or rule of conduct of the Code of Ethics or the Standard(s) with which full conformance was not achieved; • Reason(s) for nonconformance; and • Impact of nonconformance on the engagement and the communicated engagement results.
<p>Reporting Views of Responsible Officials: 7.34 When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials' written comments, or a summary of the comments received. When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments and provide a copy of the summary to the responsible officials to verify that the comments are accurately stated.</p> <p>7.35 Auditors should also include in the report an evaluation of the comments, as appropriate....</p> <p>7.37 When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence.</p> <p>7.38 If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments.</p>	<p>Practice Advisory 2410-1: Communication Criteria:</p> <p>12. As part of the internal auditor's discussions with the engagement client, the internal auditor obtains agreement on the results of the engagement and on any necessary plan of action to improve operations. If the internal auditor and engagement client disagree about the engagement results, the engagement communications state both positions and the reasons for the disagreement. The engagement client's written comments may be included as an appendix to the engagement report, in the body of the report, or in a cover letter.</p>

2011 GAGAS	2011 IPPF
<p>Reporting Confidential and Sensitive Information:</p> <p>7.39 If certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that make the omission necessary.</p> <p>7.42 Considering the broad public interest in the program or activity under audit assists auditors when deciding whether to exclude certain information from publicly available reports. When circumstances call for omission of certain information, auditors should evaluate whether this omission could distort the audit results or conceal improper or illegal practices.</p> <p>7.43 When audit organizations are subject to public records laws, auditors should determine whether public records laws could impact the availability of classified or limited use reports and determine whether other means of communicating with management and those charged with governance would be more appropriate....</p>	<p>Practice Advisory 2410-1: Communication Criteria:</p> <p>13. Certain information is not appropriate for disclosure to all report recipients because it is privileged, proprietary, or related to improper or illegal acts. Disclose such information in a separate report. Distribute the report to the board if the conditions being reported involve senior management.</p>
<p>Distributing Reports:</p> <p>7.44 Distribution of reports completed in accordance with GAGAS depends on the relationship of the auditors to the audited organization and the nature of the information contained in the report. Auditors should document any limitation on report distribution. The following discussion outlines distribution for reports completed in accordance with GAGAS:</p> <p>a. Audit organizations in government entities should distribute audit reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations, and to others authorized to receive such reports.</p> <p>b. Internal audit organizations in government entities may also follow the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing. In accordance with GAGAS and IIA Standards, the head of the internal audit organization should communicate results to parties who can ensure that the results are given due consideration. If not otherwise mandated by statutory or regulatory requirements, prior to releasing results to parties outside the organization, the head of the internal audit organization should:</p> <ol style="list-style-type: none"> (1) assess the potential risk to the organization; (2) consult with senior management or legal counsel as appropriate; and (3) control dissemination by indicating the intended users of the report. <p>c. Public accounting firms contracted to perform an audit in accordance with GAGAS should clarify report distribution responsibilities with the engaging organization. If the contracting firm is responsible for the distribution, it should reach agreement with the party contracting for the audit about which officials or organizations will receive the report and the steps being taken to make the report available to the public.</p>	<p>2440 – Disseminating Results: The chief audit executive must communicate results to the appropriate parties.</p> <p>2440.A1 – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.</p> <p>2440.A2 – If not otherwise mandated by legal, statutory or regulatory requirements, prior to releasing results to parties outside the organization, the chief audit executive must:</p> <ul style="list-style-type: none"> • Assess the potential risk to the organization; • Consult with senior management and/or legal counsel as appropriate; and • Control dissemination by restricting the use of the results. <p>2201.A1 – When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.</p> <p>2410.A3 – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.</p> <p>Practice Advisory 2440-1: Disseminating Results</p>

2011 GAGAS	2011 IPPF
<p>Management's Role:</p> <p>A1.08 Managers have fundamental responsibilities for carrying out government functions. Management of the audited entity is responsible for addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations;...</p> <p>Threats to Independence: Examples: A3.02-A3.09</p>	<p>2500 – Monitoring Progress: The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.</p> <p>2500.A1 – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.</p> <p>2600 – Resolution of Senior Management's Acceptance of Risk: When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive must report the matter to the board for resolution.</p>
<p>Report Quality Elements: A7.02 The auditor may use the report quality elements of timely, complete, accurate, objective, convincing, clear, and concise when developing and writing the audit report as the subject permits.</p>	<p>2420 – Quality of Communications: Communications must be accurate, objective, clear, concise, constructive, complete, and timely.</p> <p>Practice Advisory 2420-1: Quality of Communications</p>

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