COMPARING SR 13-1 TO IIA STANDARDS

Similarities and differences between the *Standards* and the U.S. Federal Reserve’s view on the internal audit function
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**INTRODUCTION**

The Institute of Internal Auditors (IIA) and the U.S. Federal Reserve communicate expectations for internal auditing from two perspectives. The IIA’s International Professional Practices Framework (IPPF), which includes its *International Standards for the Professional Practice of Internal Auditing*, provides The IIA’s promulgated guidance to internal audit professionals.¹ In comparison, the Federal Reserve’s *Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing* (SR 13-1) is directed at institutions.²

Although their target audiences are different, the guidance from both organizations is largely compatible and consistent. Indeed, the Federal Reserve strongly encourages “internal auditors to adhere to professional standards such as the IIA guidance,” as noted in SR 13-1.

This Financial Services Audit Center (FSAC) publication identifies and discusses key areas where SR 13-1 and IIA Standards intersect to facilitate implementation of guidance from both the Federal Reserve and The IIA. Internal auditors, boards, and senior management can use this information to improve internal audit effectiveness in their organizations. While key topics are explored, please note that this comparison is not intended to be exhaustive.

**SR 13-1 background**

SR 13-1, designed to supplement but not supersede the guidance of the Federal Reserve’s 2003 Policy Statement,³ comprises five sections:

- **Section 1**: Enhanced internal audit practices.
- **Section 2**: The internal audit function.
- **Section 3**: Internal audit outsourcing arrangements.
- **Section 4**: Independence guidance for the independent public accountant.
- **Section 5**: Examination guidance.

This FSAC knowledge brief will focus on Sections 1 and 2, where the Federal Reserve describes, in detail, its expectations of the internal audit function. Although Section 3 discusses the outsourcing of internal audit, which is not recommended in general by The IIA, the expectation is that the service provider is in conformance with the IPPF.

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Terminology

In aligning the Standards and SR 13-1, certain general parameters should be observed. First there are differences in terminology that should be recognized. The Standards use the term internal audit activity, while SR 13-1 uses the term internal audit function. These terms should be considered one and the same. The term must is used in the Standards to specify an unconditional requirement and should where conformance is expected unless, when applying professional judgment, circumstances justify deviation. SR 13-1 uses the word should to convey the Federal Reserve’s expectations of internal audit.

IIA Standards

When mapping the Standards to the Federal Reserve’s expectations in SR 13-1, it is important to note that there are certain Standards with underlying concepts that should be considered constants throughout this comparison and analysis.

- **IIA Standard 1220: Due Professional Care**, states that internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.

- **IIA Standard 2100: Nature of Work**, states that internal audit must evaluate and contribute to the improvement of the organization’s governance, risk management, and control processes using a systematic, disciplined, and risk-based approach.

- **IIA Standard 2020: Communication and Approval**, states that the chief audit executive (CAE) must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The CAE must also communicate the impact of resource limitations.

- **IIA Standard 2400: Communicating Results**, states that internal auditors must communicate the results of engagements.
SECTION 1. ENHANCED INTERNAL AUDIT PRACTICES

A. Risk analysis

In this section, SR 13-1 states that “internal audit should analyze the effectiveness of all critical risk management functions both with respect to individual risk dimensions, and an institution’s overall risk management function.” This aligns with IIA Standard 2120: Risk Management with slight differences. The key action phrase in this section of SR 13-1 is “analyze the effectiveness” of risk management where Standard 2120 requires internal audit to not only “evaluate” the effectiveness, but internal audit must “contribute to the improvement” of risk management. The Federal Reserve guidance does not explicitly place the responsibility of contributing to the improvement of the risk management with internal audit.

SR 13-1 further states in this section that the analysis should focus on the nature and extent of monitoring compliance with established policies and processes, and applicable laws and regulations, within the institution as well as whether monitoring processes are appropriate for the institution’s business activities and the associated risks.

These requirements are stated in a more general tone by using phrases such as “policies and processes” and “business activities and the associated risks,” which are open to some interpretation of risks. Standard 2120.A1 and Standard 2120.A2 list specific risks associated with an organization’s governance, operations, and information systems for analyzing the effectiveness of critical risk management functions, including:

- Achievement of the organization’s strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.
- Potential for the occurrence of fraud.
- How the organization manages fraud risk.

This list is not finite. In addition, Standard 2120.C1 on consulting engagements allows for an expansion of the list by calling on internal audit to be alert to the existence of other significant risks. One may consider using the list provided in the IPPF as a starting point in this activity.

B. Thematic control issues

This section of SR 13-1 centers around internal audit identifying “thematic macro control issues as part of its risk-assessment processes and determine the overall impact of such issues on the institution’s risk profile.”