

PROFESSIONAL GUIDANCE

The Government Accountability Office:
GOVERNMENT AUDIT STANDARDS

The Institute of Internal Auditors:
INTERNATIONAL PROFESSIONAL
PRACTICES FRAMEWORK

A COMPARISON

Acknowledgments

Cecil Bragg, CGAP, CPA

Auditor, Office of Inspector General
U.S. Department of Health and Human Services

Lori Cox, CIA, CGAP

Technical Director, Standards and Guidance
The Institute of Internal Auditors

Warren Hersh, CIA, CPA, CISA, CFE, CCSA

Auditor General, NJ Transit

Heather I. Keister, CIA, CPA

Specialist, Auditing Standards
Government Accountability Office

Sam M. McCall, CIA, CGAP, CPA, CGFM

City Auditor
City of Tallahassee

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INTRODUCTION AND PURPOSE

The U.S. 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 auditing standards. Professional auditing standards provide a framework for conducting high quality audits. Both organizations are committed to working together to develop standards that are complimentary and can be used to perform high quality government audits.

The purpose of this document is to identify similar principles and key differences between each organization's 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.

I. HISTORY OF THE ORGANIZATIONS AND AUDITING STANDARDS

The GAO was established by the Accounting and Budgeting Act of 1921 and is situated in the Legislative branch of the federal government, reporting to the 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. GAO currently describes its mission as supporting the Congress in meeting its constitutional responsibilities and to help 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 Staats and asked for 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, which came to be known as the "Yellow Book." 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 "Yellow Book," has undergone five major revisions through July 2007. The revisions have been made to respond to changes in the government accounting and auditing environment and to changes in other professional standards. The Yellow Book 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 Institute 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 Institute's first standards for the professional practice of internal auditing were 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 Institute's Governing Board appointed a Guidance Task Force to review the continued applicability and relevance of the standards some 20 years after first issuance. As a result, 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. 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 International Professional Practices Framework, more commonly referred to as the "Red Book."

The Institute has more than 160,000 members with 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.

II. THE STANDARDS SETTING PROCESS

Both The IIA and GAO follow a due process procedure in establishing new and revised auditing standards. Both organizations issue exposure drafts of the proposed new standards for public comment. For GAO, the Comptroller General appoints an Advisory Council on Government Auditing Standards to provide advice on issues related to Yellow Book standards. The Council consists of auditing and accounting professionals at the federal, state, and local government level, users and preparers, academics, and private sector CPA firms that perform government audits. For the Yellow Book, 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 Internal Auditing Standards Board (IASB). The Board 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 IASB coordinates with other IIA committees including: (1) the Professional Issues Committee, and (2) the Public Sector Committee (formerly the Government Relations Committee) that represents government internal auditors and also assists in promoting the Certified Government Auditing Professional (CGAP) exam, a specialty designation for government auditors.

III. CONSTITUENCIES

The Yellow Book contains requirements and guidance for a variety of constituencies. 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 requirement of U.S. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Additionally, many government audit organizations, both domestically and internationally, follow the Yellow Book in the conduct of performance audits, either by policy or through a legal requirement. It is required to be used by Federal Inspectors General and by many state and local government auditors, 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 the Yellow Book. The Yellow Book contains requirements for financial audits, attestation engagements, and performance audits.

The IIA standards are used by internal auditors throughout the world. Members of The IIA work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.

Some government audit organizations have and continue to conduct audits that comply with both the Red Book and the Yellow Book. 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 standards. The auditing standards of The IIA are often implemented along with the performance audit requirements of the Yellow Book, which are contained in Chapters 1 through 3, and 7 and 8. While the Yellow Book 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

GAO has consistently and continually provided recognition to 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* and Practice Advisories. 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 auditing 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.

IV. AUDITING STANDARDS COMPARISON OVERVIEW

There are many similarities between the Red Book and the Yellow Book. Table 1 identifies the general, fieldwork, and reporting standards contained in the July 2007 revision of the Yellow Book for performance audits. The table also shows, for comparison, the Attribute and

Performance Standards in the 2009 Red Book. In addition, both organizations identify ethics as a necessary foundation for a professional audit organization and its auditors in performing government audits.

Table 1
Comparison Overview

GAO's Government Auditing Standards: The Yellow Book	IIA's International Professional Practices Framework: The Red Book
<ul style="list-style-type: none"> • Use and Application of GAGAS • Ethical Principles in Government Auditing • General Standards: <ul style="list-style-type: none"> - Independence - Professional Judgment - Competence - Quality Control and Assurance • Field Work 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 	<ul style="list-style-type: none"> • Preface and Definition of Internal Auditing • Code of Ethics • 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

V. 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 the Yellow Book and the Red Book and suggestions on how to address such differences.

A. Issue 1 – “Consulting” Under the Red Book Compared to “Consulting” Under the Yellow Book

The Red Book defines **internal auditing**, in part, as, “... an independent, objective assurance and consulting activity designed to add value to an organization’s operations.” Accordingly, consulting as described by the IIA is one of two major types of audit services that can be provided by internal audit organizations. Further, The IIA defines “consulting services” as advisory and related client service activities ... **without the internal auditor assuming management responsibility.**” By comparison, paragraph A3.01 of the Yellow Book describes types of professional services, other than audits and attestation engagements, that are sometimes referred to as **nonaudit services or consulting services.** The Yellow Book and the Red Book use the word “consulting” to describe different services. The Red Book uses the term consulting within the definition of internal auditing, whereas, the Yellow Book uses the term to refer to a nonaudit service.

Both organizations are aware of their differing use of the term “consulting.” However, both organizations are in agreement that to remain independent for purposes of conducting audit work, auditors must adhere to the two overarching principles described in paragraph 3.22 in the Yellow Book: “(1) audit organizations must not provide nonaudit services that involve performing

management functions or making management decisions and (2) audit organizations must not audit their own work or provide nonaudit services in situations in which the nonaudit services are significant or material to the subject matter of the audits.”

Suggestion:

Audit organizations that desire to follow the Red Book and the Yellow Book in audit work should conduct such work in accordance with both sets of audit standards. Auditors should comply with the Yellow Book overarching principles described in paragraph 3.22, 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 two overarching independence principles of the Yellow Book are met, along with the other standards for performance audits contained in Chapters 1 through 3 and 7 and 8 of the Yellow Book.

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

Standard 1130.A1 of the Red Book states that an internal auditor’s objectivity is presumed to be impaired if the auditor provides assurance services for an activity the internal auditor had responsibility for **within the previous year.** Standard 1130.C1 states that internal auditors may provide consulting services relating to operations for which **they had** previous responsibilities. In contrast, the Yellow Book describes a personal impairment to independence in paragraph 3.07d when there is concurrent or

subsequent performance of an audit by the same individual who maintained the official accounting records when such activities involved...or otherwise exercising authority on behalf of the entity, or having authority to do so. Yellow Book footnote 22 specifies that the period covered by the personal impairment includes the period covered by the audit and the period in which the audit is being performed and reported. Accordingly, the Yellow Book is more detailed on audit work an auditor may perform if the auditor was previously an employee of the program, activity, or function to be audited. Question 40 in the *Government Auditing Standards, Answers to Independence Standard Questions* provides additional guidance on this issue.

Suggestion:

Audit organizations should review paragraphs 3.03-3.05 and 3.07d of the Yellow Book 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

Red Book Standard 1130 states that 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 addresses situations

where the auditor may be called upon to perform “non-audit services.” This practice advisory states that if auditors have this responsibility, then they are not functioning as internal auditors. Also, the practice advisory notes that performance of non-audit work by the internal auditor needs to be disclosed in the auditor’s standard communication to the board.

By comparison to the above, the Yellow Book in paragraphs 3.25-3.30 discusses three types of nonaudit services: those that do not impair independence, those that would not impair organizational independence, as long as the audit organization complies with supplemental safeguards, and those that do impair independence. For those nonaudit services in the second category, staff can be assigned to perform such nonaudit work; however, in these instances, the organization must adhere to certain supplemental safeguards. In addition, the **audit organization that performed the nonaudit work** would not be independent to subsequently audit the same program, activity, or function.

The Yellow Book also describes other more serious impairments to organizational independence. For example, if the nonaudit work is considered significant to the organization’s current scope or planned scope of work, organizational independence is impaired and the supplemental safeguards cannot overcome the impairment. In these instances, the organization should refuse to conduct the work or, if required to perform the audit and the nonaudit service by law, the organization would have to disclose in the audit report that the organization was not independent and modify the required GAGAS compliance statement. The Yellow Book has more detailed requirements in this area and can have a significant effect on an internal audit organization’s ability to conduct a complete scope of services.

Suggestion:

Audit organizations should carefully review the Yellow Book independence standards contained in paragraphs 3.02-3.30. Audit organizations, particularly small internal audit organizations, should carefully review paragraphs 3.25-3.30 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. Consideration should be given to making every effort to conduct all work in accordance with the more detailed requirements of the Yellow Book.

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

Standard 2110.A1 of the Red Book provides that the internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities. By comparison, the Yellow Book devotes Chapter 2 to ethical principles of the audit organization. Further, while not an audit requirement, paragraph 1.02 of the Yellow Book discusses the ethical responsibility for government officials and establishes an expectation that government officials would carry out public functions ethically. The Red Book appears to be more detailed as it requires 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 Red Book, a periodic evaluation should be made of the organizations 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

Standard 2010 of the Red Book states that the CAE must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization’s goals. 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, and the input of senior management and the board must be considered in this process. The Yellow Book 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 Red Book, 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 Standard 1312 of the Red Book, 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 3.55 of the Yellow Book 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 3.61 of the Yellow Book also requires internal audit organizations to provide a copy of the external peer review report to those charged with governance and government audit organizations to communicate the overall results and the availability of their external peer review reports

to appropriate oversight bodies. Standard 1320 of the Red Book 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 Red Book and the Yellow Book should have a peer review or an external quality assurance review conducted every three years designed to determine conformance with both the Red Book and the Yellow Book. This approach would likely be more efficient than having a Yellow Book review every three years and a Red Book review every five years.

G. Issue 7 – Quality Assurance Systems

Standard 1300 of the Red Book states that the CAE must develop and maintain a quality assurance and improvement program (QAIP) that covers all aspects of the internal audit activity. Standard 1310 requires that the program must include both internal and external assessments. Standard 1311 provides that internal assessment 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 5.) Standard 1320 requires that the CAE 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.

Paragraph 3.50 of the Yellow Book states that each audit organization performing audits or attestation engagements in accordance with GAGAS must establish 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. Paragraph 3.53 includes requirements that the policies and procedures of the audit organization's system of quality control should collectively address: leadership responsibilities for quality within the audit organization; independence, legal, and ethical requirements; initiation, acceptance, and continuance of audit and attestation engagements; human resources; audit and attestation engagement performance, documentation, and reporting; and monitoring of quality. Also, paragraph 3.54 requires the audit organization to analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic 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, the Yellow Book includes more detailed requirements for the audit organization's quality assurance system and the requirement to annually summarize the results of its monitoring procedures.

Suggestion:

Audit organizations follow the more detailed requirements for the audit organization's quality assurance system that are included in the Yellow Book and 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

Yellow Book paragraph 8.30, 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 the Yellow Book and also make reference to the Red Book 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 had an external quality assurance review may not be able to make the above statement. See Red Book Standard 1321 and Practice Advisory 1321-1.

I. Issue 9 – Referencing the Standards

In Standard 1321 of the Red Book, the CAE 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 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, the Code of Ethics and the *Standards*.

By comparison, the Yellow Book in paragraphs 1.12 and 8.30 states that auditors **should include a GAGAS compliance statement in the auditor's report**. The Yellow book contains more detailed requirements for reporting compliance with the audit standards. Paragraph 3.55 (and the related footnote number 40) states that an external review requirement is effective within three years from the date an organization begins fieldwork on its first assignment in accordance with GAGAS. Paragraph 3.53f discusses monitoring as part of the system of quality control to evaluate adherence to professional standards, design of the quality control system, and whether the quality control policies and procedures are operating effectively and complied with in practice. Yellow Book footnote 35 states that an audit organization's noncompliance with the peer review requirements results in a modified GAGAS compliance statement, and the audit organization's compliance with the requirements for a system of quality control are tested and reported on as part of the peer review process and do not impact the GAGAS compliance statement.

Suggestion:

Until the audit activity has completed assessments that demonstrate the audit activity is in conformance with the Red Book, they should not report activities are conducted in accordance with the Standards but should make the compliance statement as allowed under GAGAS, if applicable.

J. Issue 10 – Fraud

Both the Red Book and the Yellow Book address various aspects of fraud as it relates to required knowledge, planning, additional procedures, and reporting as follows:

- **Knowledge**
Red Book Standard 2120-A2 requires the internal audit activity to evaluate the potential for the occurrence of fraud and how the organization manages fraud risk. In addition, standard 1210.A2 requires that the internal auditors have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but auditors are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. Yellow Book paragraph 3.40 requires that the staff assigned to perform the audit must collectively possess adequate professional competence for the tasks required. In this case, competence is implied relative to fraud detection.
- **Planning**
Both Standards require assessment of potential fraud risk during engagement planning. The primary Standards for the Red Book are 2120-A1 and 2120-A2. The primary paragraphs for the Yellow Book are 7.30 through 7.32.
- **Additional Procedures**
In paragraph 7.30, the Yellow Book requires audit team members to discuss among the team fraud risks, including factors that could allow individuals to commit fraud. Also, the Yellow Book states in paragraphs 7.31 and 7.32

that auditors should design additional procedures when they identify factors or risks related to fraud that has occurred or is likely to have occurred or that fraud may have occurred that is significant within the context of the audit objectives.

- **Reporting**
The Red Book and the Yellow Book both provide specific guidance on reporting of fraud issues, i.e., the Red Book under Standard 2060 and the Yellow Book under paragraphs 8.18, 8.21, 8.22, and 8.24. The Yellow Book requires the reporting of all fraud that has occurred or is likely to have occurred, unless inconsequential.

Suggestion:

Both the Red Book and the Yellow Book provide guidance in the area of fraud. However, the Yellow Book 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 the Yellow Book, which are currently not addressed in the Red Book. In addition, the Yellow Book has more detailed requirements for the reporting of fraud. Auditors should follow the more detailed Yellow Book requirements.

K. Issue 11 – Follow-up on Previous Audits

In Standard 2500 of the Red Book, 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 actions. By comparison, paragraph 7.36 of the Yellow Book 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 Red Book requires follow up activities on each audit to ensure accountability; whereas, the Yellow Book requires follow up on previous audits to the extent that such management actions could affect the planning of the current engagement. Additionally, the Yellow Book 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 Red Book, while not assuming management's responsibilities.

L. Issue 12 – Continuing Professional Education (CPE)

Standard 1230 of the Red Book states that internal auditors must enhance their knowledge,

skill, and other competencies through continuing professional development. Practice Advisory 1230-1 states that 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 Red Book does not specify the number of hours recommended per year or biennially for auditors that are not certified. The Yellow Book, in paragraph 3.46, requires auditors to 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. For auditors who are involved in any amount of planning, directing, or reporting on GAGAS assignments and those auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS assignments 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 or attestation engagements. The Yellow Book requirement for CPE applies to all persons defined as auditors or internal specialists and makes no distinction between recommended hours of CPE for certified staff versus staff not certified.

Suggestion:

Audit organizations follow the more detailed CPE requirements of the Yellow Book for all auditors, whether certified or not. See the Government Auditing Standards Guidance on GAGAS Requirements for Continuing Professional Education for additional guidance on complying with Yellow Book CPE requirements.

Appendix A – Standard-by-Standard Comparison

July 2007 Revision of GAGAS	IIA IPPF
<p>Chapter 1 – Use and Application of GAGAS</p> <p>Introduction 1.01 Auditing is essential to government accountability to the public. Audits and attestation engagements 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>Purpose and Applicability of GAGAS 1.04 Laws, regulations, contracts, grant agreements, or policies frequently require audits in accordance with GAGAS. Many auditors and audit organizations also voluntarily choose to perform their work in accordance with GAGAS. The requirements and guidance in this document apply to audits and attestation engagements 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>Performance Audits 1.25 Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program[footnote not shown] performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. Reporting information without following GAGAS is not a performance audit but a nonaudit service provided by an audit organization.</p>	<p>Preface</p> <p>By definition internal auditing is an independent, objective assurance and consulting activity designed to add value and improve and organizations' 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. Throughout the world, internal auditing is performed in diverse environments within organizations that vary in purpose, size, and structure. In addition, the laws and customs within various countries differ from one another. These differences may affect the practice of internal auditing in each environment. The implementation of the IPPF, therefore, will be governed by the environment in which the internal audit activity carries out its assigned responsibilities.</p> <p>Conformance with the concepts enunciated in the mandatory guidance is essential to carrying out the responsibilities of internal auditors and the internal audit activity effectively. As stated in the Code of Ethics, internal auditors shall perform internal audit services in accordance with the Standards.</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>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>

July 2007 Revision of GAGAS	IIA IPPF
<p>Use of Terminology to Define Professional Requirements in GAGAS</p> <p>1.07 GAGAS use two categories of professional 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 are required to comply with an unconditional requirement in all cases in which the circumstances exist to which the unconditional requirement applies. GAGAS use the words must or is required to specify an unconditional requirement. b. Presumptively mandatory requirements: Auditors and audit organizations are also required to comply with a presumptively mandatory requirement in all cases in which the circumstances exist to which the presumptively mandatory requirement applies; however, in rare circumstances, auditors and audit organizations may depart from a presumptively mandatory requirement provided they document their justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. GAGAS use the word should to specify a presumptively mandatory requirement. 	<p>Preface</p> <p>The mandatory nature of the Standards is emphasized by the use of the word “must”. The Standards use the word “must” to specify an unconditional requirement. In some exceptional cases, the Standards use the term “should”. The Standards use the word “should” where conformance is expected unless, when applying professional judgment, circumstances justify deviation.</p>
<p>Stating Compliance with GAGAS in the Auditors’ Report</p> <p>1.11 When auditors are required to follow GAGAS or are representing to others that they followed GAGAS, they should follow all applicable GAGAS requirements and should refer to compliance with GAGAS in the auditors’ report as set forth in paragraphs 1.12 and 1.13.</p> <p>1.12 Auditors should include one of the following types of GAGAS compliance statements in reports on GAGAS audits and attestation engagements, as appropriate. [Footnote not shown.]</p> <ul style="list-style-type: none"> a. Unmodified GAGAS compliance statement: Stating that the auditor performed the audit or attestation engagement in accordance with GAGAS. Auditors should include an unmodified GAGAS compliance statement in the audit report when they have (1) followed all applicable unconditional and presumptively mandatory 	<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 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>Practice Advisory 1321-1: Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”</p> <p>The phrase to be used may be: “in conformance with the Standards,” or “in conformity to the Standards.” 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 need to have concluded that the internal audit activity is in conformance with the Definition of Internal Auditing,</p>

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<p>GAGAS requirements, or (2) have followed all unconditional requirements and documented justification for any departures from applicable presumptively mandatory requirements, and have achieved the objectives of those requirements through other means.</p> <p>b. Modified GAGAS compliance statement: Stating either that (1) the auditor performed the audit or attestation engagement 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 or attestation engagement in accordance with GAGAS. Situations when auditors use modified compliance statements 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 reasons for not following the requirement(s), and how not following the requirements affected, or could have affected, the audit and the assurance provided.</p>	<p>the Code of Ethics, and the Standards. 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 Standards.</p>
<p>1.13 When auditors do not comply with any applicable requirements, 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, and (3) determine the type of GAGAS compliance statement. [Footnote not shown.] The auditors' determination will depend on the significance of the requirements 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 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>
<p>Relationship between GAGAS and Other Professional Standards 1.14 Auditors may use GAGAS in conjunction with professional standards issued by other authoritative bodies. Auditors may also cite the use of other standards in their audit reports, as appropriate. If the auditor is citing compliance with GAGAS and inconsistencies exist between GAGAS and other standards cited, the auditor should use GAGAS as the prevailing standard for conducting the audit and reporting the results.</p>	<p>Standards Introduction If the Standards are used in conjunction with standards issued by other authoritative bodies, audit communications may also cite the use of other standards, as appropriate. In such a case, if inconsistencies exist between the Standards and other standards, internal auditors and the internal audit activity must conform with the Standards, and may conform with the other standards if they are more restrictive.</p>

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<p>Types of GAGAS Audits and Attestation Engagements</p> <p>1.19 In some audits and attestation engagements, the standards applicable to the specific audit objective will be apparent. ... However, some engagements may have multiple or overlapping objectives. ... 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>1.33 GAGAS do not cover professional services other than audits or attestation engagements (nonaudit services). ... Therefore, auditors must 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 or attestation engagement, audit organizations should communicate, as appropriate, with requestors and those charged with governance to clarify that the scope of work performed does not constitute an audit under GAGAS.</p> <p>1.34 Audit organizations that provide nonaudit services must evaluate whether providing nonaudit services creates an independence impairment either in fact or appearance with respect to the entities they audit.</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>Practice Advisory 1130.A1-1: Assessing Operations for Which Internal Auditors Were Previously Responsible</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>Practice Advisory 1130.A1-2: Internal Auditing's Responsibility for Other (Non-audit) Functions</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>Chapter 2 – Ethical Principles in Government Auditing</p> <p>The Public Interest</p> <p>2.06 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. These principles are fundamental</p>	

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<p>to the responsibilities of auditors and critical in the government environment.</p> <p>2.07 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 embody the concept of accountability for public resources, which is fundamental to serving the public interest.</p> <p>Integrity 2.09 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 violate ethical principles 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>	
<p>2.08 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 – Principle)</p> <p>The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.</p> <p>Code of Ethics (Rules of Conduct) 1. Integrity</p> <p>Internal auditors:</p> <p>1.1. Shall perform their work with honesty, diligence, and responsibility. 1.2. Shall observe the law and make disclosures expected by the law and the profession. 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. 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.</p>
<p>Objectivity 2.10 The credibility of auditing in the government sector is based on auditors' objectivity in discharging their professional responsibilities. Objectivity includes</p>	<p>Objectivity (Code of Ethics – Principles)</p> <p>Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating,</p>

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<p>being independent in fact and appearance when providing audit and attestation engagements, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Avoiding conflicts that may, in fact or appearance, impair auditors' objectivity in performing the audit or attestation engagement is essential to retaining credibility. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public.¹⁹</p> <p>¹⁹The concepts of objectivity and independence are very closely related. Problems with independence or conflicts of interest may impair objectivity. ...</p>	<p>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)</p> <p>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 Position</p> <p>2.11 Government information, resources, or 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>2.12 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>2.13 As accountability professionals, 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</p>	<p>Confidentiality (Code of Ethics – Principles)</p> <p>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)</p> <p>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>

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<p>for authorized activities is an important element in the public's expectations for auditors.</p> <p>2.14 Misusing the position of an auditor for personal gain violates an auditor's fundamental responsibilities. An auditor's credibility can be damaged by actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an auditor's personal financial interests or those of an immediate or close family member; a general partner; an organization for which the auditor serves as an officer, director, trustee, or employee; or an organization with which the auditor is negotiating concerning future employment. ...</p>	
<p>Professional Behavior</p> <p>2.15 High expectations for the auditing profession include compliance with laws and regulations 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 3 - General Standards</p> <p>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 free from personal, external, and organizational impairments to independence, and must avoid the appearance of such impairments of independence.</p> <p>3.03 Auditors and audit organizations must maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by objective third parties with knowledge of the relevant information. Auditors should avoid situations that could lead objective third parties with knowledge of the relevant information to conclude that the auditors are not able to maintain independence and thus are not capable of exercising objective and impartial judgment on</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>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>

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<p>all issues associated with conducting the audit and reporting on the work.</p> <p>3.04 When evaluating whether independence impairments exist either in fact or appearance with respect to the entities for which audit organizations perform audits or attestation engagements, auditors and audit organizations must take into account the three general classes of impairments to independence—personal, external, and organizational. [Footnote not shown.] If one or more of these impairments affects or can be perceived to affect independence, the audit organization (or auditor) should decline to perform the work—except in those situations in which an audit organization in a government entity, because of a legislative requirement or for other reasons, cannot decline to perform the work, in which case the government audit organization must disclose the impairment(s) and modify the GAGAS compliance statement. ...</p>	
<p>3.05 When auditors use the work of a specialist, [footnote not shown] auditors should assess the specialist's ability to perform the work and report results impartially as it relates to their relationship with the program or entity under audit. If the specialist's independence is impaired, auditors should not use the work of that specialist.</p>	
<p>3.06 If an impairment to independence is identified after the audit report is issued, the audit organization should assess the impact on the audit. If the audit organization concludes that it did not comply with GAGAS, it should determine the impact on the auditors' report and notify entity management, those charged with governance, the requesters, or regulatory agencies that have jurisdiction over the audited entity and persons known to be using the audit report about the independence impairment and the impact on the audit. The audit organization should make such notifications in writing.</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>Personal Impairments 3.07 Auditors participating on an audit assignment must be free from personal impairments to independence. [Footnote not shown.] Personal impairments of auditors result from relationships or</p>	<p>1120 – Individual Objectivity Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.</p>

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<p>beliefs that might cause auditors to limit the extent of the inquiry, limit disclosure, or weaken or slant audit findings in any way. Individual auditors should notify the appropriate officials within their audit organizations if they have any personal impairment to independence. ...</p> <p>3.08 Audit organizations and auditors may encounter many different circumstances or combinations of circumstances that could create a personal impairment. Therefore, it is impossible to identify every situation that could result in a personal impairment. Accordingly, audit organizations should include as part of their quality control system procedures to identify personal impairments and help ensure compliance with GAGAS independence requirements. At a minimum, audit organizations should</p> <ul style="list-style-type: none"> a. establish policies and procedures to identify, report, and resolve personal impairments to independence, b. communicate the audit organization's policies and procedures to all auditors in the organization and promote understanding of the policies and procedures, c. establish internal policies and procedures to monitor compliance with the audit organization's policies and procedures, d. establish a disciplinary mechanism to promote compliance with the audit organization's policies and procedures, e. stress the importance of independence and the expectation that auditors will always act in the public interest, and f. maintain documentation of the steps taken to identify potential personal independence impairments. 	
<p>3.09 When the audit organization identifies a personal impairment to independence prior to or during an audit, the audit organization should take action to resolve the impairment in a timely manner. ... If the personal impairment cannot be eliminated, the audit organization should withdraw from the audit. In situations in which auditors employed by government entities cannot withdraw from the audit, they should follow paragraph 3.04.</p>	<p>Practice Advisory 1130-1: Impairments to Independence or Objectivity</p> <p>1. Internal auditors are to report to the chief audit executive (CAE) any situations in which an actual or potential impairment to independence or objectivity may reasonably be inferred, or if they have questions about whether a situation constitutes an impairment to objectivity or independence. If the CAE determines that impairment exists or may be inferred, he or she needs to reassign the auditor(s).</p>

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<p>External Impairments 3.10 Audit organizations must be free from external impairments to independence. Factors external to the audit organization may restrict the work or interfere with auditors' ability to form independent and objective opinions, findings, and conclusions. External impairments to independence occur when auditors are deterred from acting objectively and exercising professional skepticism by pressures, actual or perceived, from management and employees of the audited entity or oversight organizations.</p> <p>3.11 Audit organizations should include policies and procedures for identifying and resolving external impairments as part of their quality control system for compliance with GAGAS independence requirements.</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>Organizational Independence 3.12 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. Whether reporting to third parties externally or to top management within the audited entity internally, audit organizations must be free from organizational impairments to independence with respect to the entities they audit. Impairments to organizational independence result when the audit function is organizationally located within the reporting line of the areas under audit or when the auditor is assigned or takes on responsibilities that affect operations of the area under audit.</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>Organizational Independence for External Audit Organizations 3.13 External audit organizations can be presumed to be free from organizational impairments to independence when the audit function is organizationally placed outside the reporting line of the entity under audit and the auditor is not responsible for entity operations. Audit organizations in government entities can meet the requirement for organizational independence in a number of ways and may be presumed to be free from organizational impairments to independence from the audited entity if the audit organization is</p> <p>a. at a level of government other than the one to which the audited entity is assigned (federal,</p>	

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<p>state, or local); for example, federal auditors auditing a state government program; or</p> <p>b. in a different branch of government within the same level of government as the audited entity; for example, legislative auditors auditing an executive branch program.</p> <p>3.14 Audit organizations in government entities may also be presumed to be free from organizational impairments if the head of the audit organization meets any of the following criteria:</p> <ul style="list-style-type: none"> a. directly elected by voters of the jurisdiction being audited; b. elected or appointed by a legislative body, subject to removal by a legislative body, and reports the results of audits to and is accountable to a legislative body; c. appointed by someone other than a legislative body, so long as the appointment is confirmed by a legislative body and removal from the position is subject to oversight or approval by a legislative body, [footnote not shown] and reports the results of audits to and is accountable to a legislative body; or d. appointed by, accountable to, reports to, and can only be removed by a statutorily created governing body, the majority of whose members are independently elected or appointed and come from outside the organization being audited. <p>3.15 In addition to the presumptive criteria in paragraphs 3.13 and 3.14, GAGAS recognize that there may be other organizational structures under which audit organizations in government entities could be considered to be free from organizational impairments and thereby be considered organizationally independent for reporting externally. These structures provide safeguards to prevent the audited entity from interfering with the audit organization's ability to perform the work and report the results impartially. For an external audit organization to be considered free from organizational impairments under a structure different from the ones listed in paragraphs 3.13 and 3.14, the audit organization should have all of the following safeguards. In such situations, the audit organization should document how each of the following safeguards were satisfied and provide the</p>	

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<p>documentation to those performing quality control monitoring and to the external peer reviewers to determine whether all the necessary safeguards have been met.</p> <ul style="list-style-type: none"> a. statutory protections that prevent the audited entity from abolishing the audit organization; b. statutory protections that require that if the head of the audit organization is removed from office, the head of the agency report this fact and the reasons for the removal to the legislative body; c. statutory protections that prevent the audited entity from interfering with the initiation, scope, timing, and completion of any audit; d. statutory protections that prevent the audited entity from interfering with audit reporting, including the findings and conclusions or the manner, means, or timing of the audit organization's reports; e. statutory protections that require the audit organization to report to a legislative body or other independent governing body on a recurring basis; f. statutory protections that give the audit organization sole authority over the selection, retention, advancement, and dismissal of its staff; and g. statutory access to records and documents related to the agency, program, or function being audited and access to government officials or other individuals as needed to conduct the audit. [Footnote not shown.] 	
<p>Organizational Independence for Internal Audit Functions</p> <p>3.16 Certain federal, state, or local government entities employ auditors to work for management of the audited entities. 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 Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing in conjunction with GAGAS. Under GAGAS, a government internal audit function can be presumed to be free from organizational impairments to independence for reporting internally if the head of the audit organization meets all of the following criteria:</p> <ul style="list-style-type: none"> a. is accountable to the head or deputy head of the government entity or to those charged with governance; 	<p>2060 – Reporting to Senior Management and the Board</p> <p>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</p> <p>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>

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<ul style="list-style-type: none"> b. reports the audit results both to the head or deputy head of the government entity and to those charged with governance; c. is located organizationally outside the staff or line- management function of the unit under audit; d. has access to those charged with governance; and e. is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal. <p>3.17 The internal audit organization should report regularly to those charged with governance.</p> <p>3.19 The internal audit organization should document the conditions that allow it to be considered free of organizational impairments to independence for internal reporting and provide the documentation to those performing quality control monitoring and to the external peer reviewers to determine whether all the necessary safeguards have been met.</p>	<p>1111 – Direct Interaction With the Board The chief audit executive must communicate and interact directly with the board.</p>
<p>Organizational Independence When Performing Nonaudit Services</p> <p>3.20 Audit organizations at times may perform other professional services (nonaudit services) that are not performed in accordance with GAGAS. Audit organizations that provide nonaudit services must evaluate whether providing the services creates an independence impairment either in fact or appearance with respect to entities they audit. [Footnote not shown.] ...</p> <p>3.21 Audit organizations in government entities generally have broad audit responsibilities and, therefore, should establish policies and procedures for accepting engagements to perform nonaudit services so that independence is not impaired with respect to entities they audit. ... Independent public accountants may provide audit and nonaudit services (commonly referred to as consulting) under contractual commitments to an entity and should determine whether nonaudit services they have provided or are committed to provide have a significant or material effect on the subject matter of the audits.</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>

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<p>Overarching Independence Principles</p> <p>3.22 The following two overarching principles apply to auditor independence when assessing the impact of performing a nonaudit service for an audited program or entity:</p> <ol style="list-style-type: none"> (1) audit organizations must not provide nonaudit services that involve performing management functions or making management decisions and (2) audit organizations must not audit their own work or provide nonaudit services in situations in which the nonaudit services are significant or material to the subject matter of the audits. [Footnote not shown.] <p>3.23 In considering whether audits performed by the audit organization could be significantly or materially affected by the nonaudit service, audit organizations should evaluate (1) ongoing audits; (2) planned audits; (3) requirements and commitments for providing audits, which includes laws, regulations, rules, contracts, and other agreements; and (4) policies placing responsibilities on the audit organization for providing audit services.</p> <p>3.24 If requested [footnote not shown] to perform nonaudit services that would impair the audit organization's ability to meet either or both of the overarching independence principles for certain types of audit work, the audit organization should inform the requestor and the audited entity that performing the nonaudit service would impair the auditors' independence with regard to subsequent audit or attestation engagements.</p> <p>Nonaudit Services That Would Not Impair Independence if Supplemental Safeguards Are Implemented</p> <p>3.28 Services that do not impair the audit organization's independence with respect to the entities they audit so long as they comply with supplemental safeguards include the following:</p> <ol style="list-style-type: none"> a. providing basic accounting assistance limited to services such as preparing draft financial statements that are based on management's chart of accounts and trial balance and any adjusting, correcting, and closing entries that have been approved by management; preparing draft notes to the financial statements based on information determined and approved by 	<p>Practice Advisory 1130.A2-1: Internal Audit's Responsibility for Other (Non-audit) Functions</p> <ol style="list-style-type: none"> 1. Internal auditors are not to accept responsibility for non-audit functions or duties that are subject to periodic internal audit assessments. If they have this responsibility, then they are not functioning as internal auditors. 2. When the internal audit activity, chief audit executive (CAE), or individual internal auditor is responsible for, or management is considering assigning, an operational responsibility that the internal audit activity might audit, the internal auditor's independence and objectivity may be impaired. At a minimum, the CAE needs to consider the following factors in assessing the impact on independence and objectivity: <ul style="list-style-type: none"> • Requirements of the Code of Ethics and the Standards. • Expectations of stakeholders that may include the shareholders, board of directors, audit committee, management, legislative bodies, public entities, regulatory bodies, and public interest groups. • Allowances and/or restrictions contained in the internal audit activity charter. • Disclosures required by the Standards. • Audit coverage of the activities or responsibilities undertaken by the internal auditor. • Significance of the operational function to the organization (in terms of revenue, expenses, reputation, and influence). • Length or duration of the assignment and scope of responsibility. • Adequacy of separation of duties. • Whether there is any history or other evidence that the internal auditor's objectivity may be at risk. 3. If the internal audit charter contains specific restrictions or limiting language regarding the assignment of non-audit functions to the internal auditor, then disclosure and discussion with management of such restrictions is necessary. If management insists on such an assignment, then disclosure and discussion of this matter with the board is necessary. If the internal audit charter is silent on this matter, the guidance noted in the

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<p>management; preparing a trial balance based on management's chart of accounts; maintaining depreciation schedules for which management has determined the method of depreciation, rate of depreciation, and salvage value of the asset (If the audit organization has prepared draft financial statements and notes and performed the financial statement audit, the auditor should obtain documentation from management in which management acknowledges the audit organization's role in preparing the financial statements and related notes and management's review, approval, and responsibility for the financial statements and related notes in the management representation letter. The management representation letter that is obtained as part of the audit may be used for this type of documentation.); ...</p> <p>Nonaudit Services That Impair Independence 3.29 Compliance with supplemental safeguards will not overcome independence impairments in this category. By their nature, certain nonaudit services directly support the entity's operations and impair the audit organization's ability to meet either or both of the overarching independence principles in paragraph 3.22 for certain types of audit work. Examples of the types of services under this category include the following:</p> <ol style="list-style-type: none"> maintaining or preparing the audited entity's basic accounting records or maintaining or taking responsibility for basic financial or other records that the audit organization will audit; posting transactions (whether coded or not coded) to the entity's financial records or to other records that subsequently provide input to the entity's financial records; determining account balances or determining capitalization criteria; designing, developing, installing, or operating the entity's accounting system or other information systems that are material or significant to the subject matter of the audit; providing payroll services that (1) are material to the subject matter of the audit or the audit objectives, and/or (2) involve making management decisions; providing appraisal or valuation services that exceed the scope described in paragraph 3.28 c; 	<p>points below are to be considered. All the points noted below are subordinate to the language of the internal audit charter.</p> <ol style="list-style-type: none"> When the internal audit activity accepts operational responsibilities and that operation is part of the audit plan, the CAE needs to: <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. 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.

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<ul style="list-style-type: none"> g. recommending a single individual for a specific position that is key to the entity or program under audit, otherwise ranking or influencing management's selection of the candidate, or conducting an executive search or a recruiting program for the audited entity; h. developing an entity's performance measurement system when that system is material or significant to the subject matter of the audit; i. developing an entity's policies, procedures, and internal controls; j. performing management's assessment of internal controls when those controls are significant to the subject matter of the audit; k. providing services that are intended to be used as management's primary basis for making decisions that are significant to the subject matter under audit; l. carrying out internal audit functions, when performed by external auditors; and m. serving as voting members of an entity's management committee or board of directors, making policy decisions that affect future direction and operation of an entity's programs, supervising entity employees, developing programmatic policy, authorizing an entity's transactions, or maintaining custody of an entity's assets. [Footnote not shown.] 	
<p>Supplemental Safeguards for Maintaining Auditor Independence When Performing Nonaudit Services</p> <p>3.30 Performing nonaudit services described in paragraph 3.28 will not impair independence if the overarching independence principles stated in paragraph 3.22 are not violated. For these nonaudit services, the audit organization should comply with each of the following safeguards:</p> <ul style="list-style-type: none"> a. document its consideration of the nonaudit services, including its conclusions about the impact on independence; b. establish in writing an understanding with the audited entity regarding the objectives, scope of work, and product or deliverables of the nonaudit service; and management's responsibility for (1) the subject matter of the nonaudit services, (2) the substantive outcomes of the work, and (3) making any decisions that involve management functions 	<p>Practice Advisory 1130.A2-1: Internal Audit's Responsibility for Other (Non-audit) Functions</p>

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<p>related to the nonaudit service and accepting full responsibility for such decisions;</p> <p>c. exclude personnel who provided the nonaudit services from planning, conducting, or reviewing audit work in the subject matter of the nonaudit service; [footnote not shown] and</p> <p>d. do not reduce the scope and extent of the audit work below the level that would be appropriate if the nonaudit service were performed by an unrelated party.</p>	
<p>Professional Judgment</p> <p>3.31 Auditors must use professional judgment in planning and performing audits and attestation engagements 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>
<p>3.38 Auditors should document significant decisions affecting the audit objectives, scope, and methodology; findings; conclusions; and recommendations resulting from professional judgment.</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>

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	<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 3.40 The staff assigned to perform the audit or attestation engagement must collectively possess adequate professional competence for the tasks required.</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 - Principle) 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>

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<p>3.41 The audit organization's management should assess skill needs to consider whether its workforce has the essential skills that match those necessary to fulfill a particular audit mandate or scope of audits to be performed. 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>
<p>Technical Knowledge and Competence 3.43 The staff assigned to conduct an audit or attestation engagement under GAGAS must collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that assignment. The staff assigned to a GAGAS audit or attestation engagement 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 under review; c. skills to communicate clearly and effectively, both orally and in writing; and d. skills appropriate for the work being performed. For example, staff or specialist skills in <ul style="list-style-type: none"> (1) statistical sampling if the work involves use of statistical 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>

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<p>Continuing Professional Education 3.46 Auditors performing work under GAGAS, including planning, directing, performing field work, or reporting on an audit or attestation engagement under GAGAS, should maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work under 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. For auditors who are involved in any amount of planning, directing, or reporting on GAGAS assignments and those auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS assignments 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 or attestation engagements. 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 period.</p> <p>3.48 Improving their own competencies and meeting CPE requirements are primarily the responsibilities 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 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>3.49 External specialists assisting in performing a GAGAS assignment should be qualified and maintain professional competence in their areas of specialization but are not required to meet the GAGAS CPE requirements described. However, auditors who use the work of external specialists should assess the professional qualifications of such specialists and document their findings and conclusions. Internal specialists who are part of the audit organization and perform as a member of the audit team should comply with GAGAS, including the CPE requirements.</p>	
<p>Quality Control and Assurance 3.50 Each audit organization performing audits or attestation engagements in accordance with GAGAS must:</p>	<p>1310 – Requirements of the Quality Assurance and Improvement Program The quality assurance and improvement program must include both internal and external assessments.</p>

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<p>a. establish 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</p> <p>b. have an external peer review at least once every 3 years.³⁵</p> <p>³⁵An audit organization's noncompliance with the peer review requirements (paragraph 3.50b and 3.55 through 3.60) results in a modified GAGAS compliance statement. The audit organization's compliance (or noncompliance) with the requirements for a system of quality control in paragraphs 3.50a and 3.51 through 3.54 are tested and reported on as part of the peer review process and do not impact the GAGAS compliance statement. ...</p>	<p>Practice Advisory 1321-1: Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"</p> <p>The phrase to be used may be: "in conformance with the Standards," or "in conformity to the Standards." 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 Standards. 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 Standards.</p>
<p>System of Quality Control</p> <p>3.52 Each audit organization must 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. ...</p> <p>3.53 An audit organization should include policies and procedures in its system of quality control that collectively address:</p> <p>a. Leadership responsibilities for quality within the audit organization: Policies and procedures that designate responsibility for quality of audits and attestation engagements performed under GAGAS and communication of policies and procedures relating to quality. ...</p> <p>b. Independence, legal, and ethical requirements: Policies and procedures designed to provide reasonable assurance that the audit organization and its personnel maintain independence, and comply with applicable legal and ethical requirements. [Footnote not shown.]</p> <p>c. Initiation, [footnote not shown] acceptance, and continuance of audit and attestation engagements: Policies and procedures for the</p>	<p>1300 – Quality Assurance and Improvement Program</p> <p>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</p> <p>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.

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<p>initiation, acceptance, and continuance of audit and attestation engagements, designed to provide reasonable assurance that the audit organization will undertake audit engagements only if it can comply with professional standards and ethical principles and is acting within the legal mandate or authority of the audit organization.</p> <p>d. Human resources: Policies and procedures designed to provide the audit organization with reasonable assurance that it has personnel with the capabilities and competence to perform its audits in accordance with professional standards and legal and regulatory requirements. [Footnote not shown.]</p> <p>e. Audit and attestation engagement performance, documentation, and reporting: Policies and procedures designed to provide the audit organization with reasonable assurance that audits and attestation engagements are performed and reports are issued in accordance with professional standards and legal and regulatory requirements. ...</p> <p>f. Monitoring of quality: An ongoing, periodic assessment of work completed on audits and attestation engagements designed to provide management of the audit organization with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice. ... The audit organization should perform monitoring procedures that enable it to assess compliance with applicable professional standards and quality control policies and procedures for GAGAS audits. Individuals performing monitoring should collectively have sufficient expertise and authority for this role.</p> <p>3.54 The audit organization should analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action. (Under GAGAS, reviews of the work and the report that are performed as part of supervision are not monitoring controls when used alone. However, these types of pre-issuance reviews may be used as a part of this analysis and summary.)</p>	

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<p>External Peer Review</p> <p>3.55 Audit organizations performing audits and attestation engagements in accordance with GAGAS must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years. [Footnote not shown.]</p> <p>3.56 The audit organization should obtain an external peer review sufficient in scope to provide a reasonable basis for determining whether, for the period under review, [footnote not shown] 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>3.57 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 audit and attestation engagement 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>3.58 The peer review team should perform a risk assessment to help determine the number and types of engagements to select. Based on the risk assessment, the team should use one or a combination of the following approaches to selecting individual audits and attestation engagements for review: (1) select GAGAS audits and attestation engagements that provide a reasonable cross-section of the GAGAS assignments performed by the reviewed audit organization or (2) select audits and attestation engagements that provide a reasonable cross-section</p>	<p>1312 – External Assessments</p> <p>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</p> <p>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</p> <p>The chief audit executive must establish policies and procedures to guide the internal audit activity.</p>

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<p>from all types of work subject to the reviewed audit organization's quality control system, including one or more assignments performed in accordance with GAGAS. [Footnote not shown.]</p> <p>3.59 The peer review team should prepare one or more written reports communicating the results of the peer review, including the following:</p> <ul style="list-style-type: none"> a. description of the scope of the peer review, including any limitations; b. an opinion on whether the system of quality control of the reviewed audit organization's audit and/or attestation engagement practices was adequately designed and compiled with during the period reviewed to provide the audit organization with reasonable assurance of conforming with applicable professional standards; c. specification of the professional standards to which the reviewed audit organization is being held; d. for modified or adverse opinions, [footnote not shown] a description of reasons for the modification or adverse opinion, along with a detailed description of the findings and recommendations, in the peer review report, to enable the reviewed audit organization to take appropriate actions; and e. reference to a separate letter of comments, if such a letter is issued. <p>3.60 The peer review team should meet the following criteria:</p> <ul style="list-style-type: none"> a. The review team collectively has current knowledge of GAGAS and government auditing. b. 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 and attestation engagements selected for the peer review. c. 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>3.61 An external audit organization [footnote not shown] should make its most recent peer review</p>	

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<p>report⁴⁵ publicly available; for example, by posting the peer review report on an external Web site or to a publicly available file designed for public transparency of peer review results. If neither of these options is available to the audit organization, then it should use the same transparency mechanism it uses to make other information public, and also provide the peer review report to others upon request. Internal audit organizations that report internally to management should provide a copy of the external peer review report to those charged with governance. Government audit organizations should also communicate the overall results and the availability of their external peer review reports to appropriate oversight bodies.</p> <p>⁴⁵This requirement does not include the letter of comment.</p> <p>3.62 ... audit organizations seeking to enter into a contract to perform an audit or attestation engagement in accordance with GAGAS should provide the following to the party contracting for such services:</p> <ul style="list-style-type: none"> a. the audit organization's most recent peer review report and any letter of comment, and b. any subsequent peer review reports and letters of comment received during the period of the contract. <p>3.63 Auditors who are using another audit organization's work should request a copy of the audit organization's latest peer review report and any letter of comment, and the audit organization should provide these documents when requested. ...</p>	<p>2000 – Managing the Internal Audit Activity The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.</p> <p>2020 – Communication and Approval The chief audit executive 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 chief audit executive must also communicate the impact of resource limitations.</p>

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	<p>2100 – Nature of Work The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.</p>
	<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, and contracts.
<p>Appendix I</p> <p>The Role of Those Charged with Governance in Accountability</p> <p>A1.06 Those charged with governance have the duty to oversee the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process, subject matter, or program under audit including related internal controls. In certain entities covered by GAGAS, those charged with governance also may be part of the entity's management. In some audit entities, multiple parties may be charged with governance, including oversight bodies, members or staff of legislative committees, boards of directors, audit committees, or parties contracting for the audit.</p> <p>A1.07 Because the governance structures of government entities and organizations can vary widely, it may not always be clearly evident who is charged with key governance functions. In these situations, auditors evaluate the organizational structure for directing and controlling operations to</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:</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>

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<p>achieve the entity's objectives. This evaluation also includes how the government entity delegates authority and establishes accountability for its management personnel.</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>Management's Role in Accountability A1.08 ... Management of the audited entity is responsible for ...</p> <ul style="list-style-type: none"> d. establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported; 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>2130.A2 – Internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organization.</p> <p>2130.A3 – Internal auditors should review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended.</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 7 – Field Work Standards for Performance Audits</p> <p>Planning 7.06 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>
<p>7.07 Auditors must plan the audit to reduce audit risk to an appropriate level for the auditors to provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. This determination is a matter of</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>

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<p>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. [Footnote not shown.] ...</p>	<p>Practice Advisory 2210.A1-1: Risk Assessment in Engagement Planning</p> <p>...</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>7.08 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.</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>7.09 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>

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<p>7.10 ... Auditors should design the methodology to obtain sufficient, appropriate evidence to address the audit objectives, reduce audit risk to an acceptable level, and provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' 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>2310 – Identifying Information Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.</p>
<p>7.11 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 ... ; legal and regulatory requirements, contract provisions or grant agreements, potential fraud, or abuse that are significant 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>7.12 During planning, the auditors also should</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 experts 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 	

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<p>Nature and Profile of the Program and User Needs 7.13 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. 	
<p>Internal Control 7.16 Auditors should obtain an understanding of internal control [footnote not shown] 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. For those internal controls that are deemed significant within the context of the audit objectives, auditors should plan 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>7.22 Internal auditing⁹³ 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. When an assessment of internal control is needed, the auditor may use the work of the internal auditors in assessing whether internal controls are effectively designed and operating effectively, and to prevent duplication of effort. ...</p> <p>⁹³Many government entities identify these internal auditing activities by other names, such as inspection,</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; • Safeguarding of assets; and • Compliance with laws, regulations, and contracts.

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<p>appraisal, investigation, organization and methods, or management analysis. These activities assist management by reviewing selected functions.</p>	
<p>Information Systems Controls 7.24 ...When information systems controls are determined to be significant to the audit objectives, auditors should then evaluate the design and operating effectiveness of such 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. [Footnote not shown.]</p> <p>7.27 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>...</p> <p>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. For example, the audit may involve the effectiveness of information systems controls related to certain systems, facilities, or organizations.</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>Legal and Regulatory Requirements, Contracts, and Grants 7.28 Auditors should determine which laws, regulations, and provisions of contracts or grant agreements are significant within the context of the audit objectives and assess the risk that violations of those laws, regulations, and provisions of contracts or grant agreements could occur. Based on that risk assessment, the auditors should design and perform procedures to provide reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts or grant agreements that are significant within the context of the audit objectives.</p>	

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<p>Fraud 7.30 In planning the audit, auditors should assess risks of fraud [footnote not shown] occurring that is significant within the context of the audit objectives. 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>Examples of Indicators of Fraud Risk A.08 In some circumstances, conditions such as the following might indicate a heightened risk of fraud:</p> <ul style="list-style-type: none"> a. the entity's financial stability, viability, or budget is threatened by economic, programmatic, or entity operating conditions; b. the nature of the audited entity's operations provide opportunities to engage in fraud; c. inadequate monitoring by management for compliance with policies, laws, and regulations; d. the organizational structure is unstable or unnecessarily complex; e. lack of communication and/or support for ethical standards by management; f. management has a willingness to accept unusually high levels of risk in making significant decisions; g. 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. lack of asset accountability or safeguarding procedures; 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 under audit. <p>7.31 When auditors identify factors or risks related to fraud that has occurred or is likely to have occurred</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>

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<p>that they believe are significant within the context of the audit objectives, they should design procedures to provide reasonable assurance of detecting 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>7.32 When information comes to the auditors' attention indicating that fraud that is 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>Abuse</p> <p>7.34 If during the course of the audit, 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. ...</p>	
<p>Ongoing Investigations or Legal Proceedings</p> <p>7.35 ...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 and/or legal authorities, or withdraw from or defer further work on the audit or a portion of the audit to avoid interfering with an investigation.</p>	
<p>Previous Audits and Attestation Engagements</p> <p>7.36 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</p>	<p>2500 – Monitoring Progress</p> <p>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>

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<p>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>Identifying Audit Criteria 7.37 Auditors should identify criteria. Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. ... 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 7.39 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>7.40 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 7.41 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>

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<p>7.42 ... 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>7.43 ... If auditors intend to use the work of specialists, they should obtain an understanding of the qualifications and independence of the specialists. ... Evaluating the 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> <ol style="list-style-type: none"> 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. The CAE determines that the external service provider possesses the necessary knowledge, skills, and other competencies to perform the engagement by considering: <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.

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	<ul style="list-style-type: none"> • 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>7.45 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"> a. the objectives and scope of the specialist's work, b. the intended use of the specialist's work to support the audit objectives, c. the specialist's procedures and findings so they can be evaluated and related to other planned audit procedures, and d. 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> <ol style="list-style-type: none"> 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. To accomplish this, the CAE reviews the following with the external service provider: ...
<p>Assigning Staff and Other Resources</p> <p>7.44 Audit 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"> a. assigning staff and specialists with the collective knowledge, skills, and experience appropriate for the job, b. assigning a sufficient number of staff and supervisors to the audit, c. providing for on-the-job training of staff, and d. engaging specialists when necessary. 	<p>2030 – Resource Management</p> <p>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>7.46 Auditors should communicate an overview of the objectives, scope, and methodology, and timing of the performance audit [footnote not shown] and planned reporting (including any potential restrictions on the report) to the following, as applicable:</p>	<p>Practice Advisory 2200-1: Engagement Planning</p> <ol style="list-style-type: none"> 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

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<p>a. management of the audited entity, including those with sufficient authority and responsibility to implement corrective action in the program or activity being audited;</p> <p>b. those charged with governance; [footnote not shown]</p> <p>c. the individuals contracting for or requesting audit services, such as contracting officials, grantees; and</p> <p>d. 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, auditors should communicate with the legislative committee.</p>	<p>reached from the meetings, and retains the documentation in the engagement working papers. 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>7.47 In situations in which those charged with governance are not clearly evident, auditors should document the process followed and conclusions reached for identifying those charged with governance.</p>	
<p>7.48 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>
<p>7.49 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 the Audit Plan</p> <p>7.50 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</p> <p>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 recording information during the engagement. The work program should be approved prior to its</p>

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	<p>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</p> <p>7.52 Audit supervisors or those designated to supervise auditors must properly supervise audit staff.</p>	<p>2340 – Engagement Supervision</p> <p>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</p> <p>7.55 Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.</p>	<p>2300 – Performing the Engagement</p> <p>Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.</p>
<p>7.56 ... 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</p>	<p>2310 – Identifying Information</p> <p>Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.</p>

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<p>determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable.</p>	
<p>7.57 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>Appropriateness 7.61 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. ...</p> <p>7.64 When auditors use information gathered 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>7.65 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 7.66 ... 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 7.68 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>	

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<p>7.70 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. ...</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 (1) using the evidence carries an unacceptably high risk that it could lead to 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>7.71 ... 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 (see paragraph 8.15 for additional reporting requirements when there are limitations or uncertainties with the validity or reliability of evidence); or d. determining whether to report the limitations or uncertainties as a finding, including any related, significant internal control deficiencies. 	
<p>Developing Elements of a Finding 7.72 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</p>	<p>Practice Advisory 2410-1: Communication Criteria ... 6. Observations are pertinent statements of fact. The internal auditor communicates those observations</p>

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<p>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 depend entirely on 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 limited to determining 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>7.73 The element of criteria is discussed in paragraphs 7.37 and 7.38, and the other elements of a finding — condition, effect, and cause—are discussed in paragraphs 7.74 through 7.76.</p> <p>7.74 Condition: Condition is a situation that exists. The condition is determined and documented during the audit.</p> <p>7.75 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. When the audit objectives include explaining why a particular type of positive or negative program performance, output, or outcome identified in the audit occurred, they are referred to as “cause.” Identifying the cause of problems may assist auditors in making constructive recommendations for correction. Because problems can result from a number of plausible factors or multiple causes, the recommendation can be more persuasive if auditors can clearly demonstrate and explain with evidence and reasoning the link between the problems and the factor or factors they have identified as the cause or causes. Auditors may</p>	<p>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, acknowledgment in the engagement 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>...</p> <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,</p>

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<p>identify deficiencies in program design or structure as the cause of deficient performance. Auditors may also identify deficiencies in internal control that are significant to the subject matter of the performance audit as the cause of deficient performance. In developing these types of findings, the deficiencies in program design or internal control would be described as the "cause." Often the causes of deficient program performance are complex and involve multiple factors, including fundamental, systemic root causes. Alternatively, when the audit objectives include estimating the program's effect on changes in physical, social, or economic conditions, auditors seek evidence of the extent to which the program itself is the "cause" of those changes.</p> <p>7.76 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. When the audit objectives include estimating the extent to which a program has caused changes in physical, social, or economic conditions, "effect" is a measure of the impact achieved by the program. In this case, effect is the extent to which positive or negative changes in actual physical, social, or economic conditions can be identified and attributed to the program.</p>	<p>and corrective actions. Recommendations are based on the internal auditor's observations and conclusions. ...</p>
<p>Audit Documentation 7.77 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,⁹⁸ 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'</p>	<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>

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<p>significant judgments and conclusions. Auditors should prepare audit documentation that contains support for findings, conclusions, and recommendations before they issue their report.</p> <p>⁹⁸An 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 perform the performance audit. These competencies and skills include an understanding of (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>	
<p>7.78 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>7.80 Under GAGAS, auditors should document the following:</p> <ol style="list-style-type: none"> the objectives, scope, and methodology of the audit; the work performed to support significant judgments and conclusions, including descriptions of transactions and records examined;⁹⁹ and evidence of supervisory review, before the audit report is issued, of the work performed that supports findings, conclusions, and recommendations contained in the audit report. <p>⁹⁹Auditors may meet this requirement by listing file numbers, case numbers, or other means of identifying specific documents they examined. They are not required to include copies of documents they examined as part of the audit documentation, nor are they required to list detailed information from those documents.</p>	<p>Practice Advisory 2330-1: Documenting Information</p> <ol style="list-style-type: none"> 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. 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. 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.

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	<p>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>
<p>7.81 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 both mandatory requirements and 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>
<p>7.82 Audit organizations should establish 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 information systems controls 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

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<p>7.83 ... Subject to applicable laws and regulations, auditors should make appropriate individuals, as well as audit documentation, available upon request and in a timely manner to other auditors or reviewers to satisfy these objectives. ...</p>	<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>7.84 Audit organizations should develop policies to deal with requests by outside parties to obtain access to audit documentation, especially when an outside party attempts to obtain information indirectly through the auditor rather than directly from the audited entity. In developing such policies, audit organizations should determine what laws and regulations apply, if any.</p>	<p>Practice Advisory 2330.A1-1: Control of Engagement Records</p> <p>...</p> <p>6. There are circumstances where parties outside the organization, other than external auditors, request access to engagement working papers and reports. Prior to releasing the documentation, the CAE obtains the approval of senior management and/or legal counsel, as appropriate.</p> <p>...</p>
<p>Chapter 8 – Reporting Standards for Performance Audits</p> <p>Reporting</p> <p>8.03 Auditors must issue audit reports communicating the results of each completed performance audit.</p>	<p>2400 – Communicating Results</p> <p>Internal auditors must communicate the engagement results.</p>
<p>8.04 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>8.06 If an audit is terminated before it is completed and an audit report is not issued, auditors should follow the guidance in paragraph 7.49.</p>	
<p>8.07 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 with those charged with governance, the appropriate officials of the audited entity, and the appropriate officials of the organizations requiring or arranging for the audits, 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.</p>	<p>2421 – Errors and Omissions</p> <p>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>

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<p>The auditors should then determine whether to conduct additional audit work necessary to reissue the report with revised findings or conclusions.</p>	
<p>Report Contents 8.08 Auditors should prepare audit reports that contain (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> <p>Objectives, Scope, and Methodology 8.09 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.</p> <p>2410.A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.</p> <p>Practice Advisory 2410-1: Communication Criteria</p> <ol style="list-style-type: none"> 1. Although the format and content of the final engagement communications varies by organization or type of engagement, they are to contain, at a minimum, the purpose, scope, and results of the engagement. ... 5. Results should include observations, conclusions, opinions, recommendations, and action plans.
<p>8.10 ... Auditors should communicate audit objectives in the audit report in a clear, specific, neutral, and unbiased manner that includes relevant assumptions, including why the audit organization undertook the assignment and the underlying purpose of the audit and resulting report. ...</p>	<p>Practice Advisory 2410-1: Communication Criteria</p> <ol style="list-style-type: none"> 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>8.11 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 of access to certain records or individuals.</p>	<p>Practice Advisory 2410-1: Communication Criteria</p> <ol style="list-style-type: none"> 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.

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<p>8.12 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>8.13 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 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 8.14 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>
<p>8.15 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>	

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<p>8.16 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 applicable, 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, as appropriate. If the results cannot be projected, auditors should limit their conclusions appropriately.</p>	
<p>8.17 ... 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>8.18 Auditors should report deficiencies [footnote not shown] in internal control that are significant within the context of the objectives of the audit, all instances of fraud, illegal acts [footnote not shown] unless they are inconsequential within the context of the audit objectives, significant violations of provisions of contracts or grant agreements, and significant abuse that have occurred or are likely to have occurred.</p>	
<p>Deficiencies in Internal Control 8.19 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, they may include those deficiencies in the report or communicate those deficiencies in writing to officials of the audited entity unless the deficiencies are inconsequential considering both qualitative and quantitative factors. Auditors should refer to that written communication in the audit report, if the written communication is separate from the audit report. Determining whether or how to communicate to officials of the audited entity deficiencies that are inconsequential within</p>	

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<p>the context of the audit objectives is a matter of professional judgment. Auditors should document such communications.</p>	
<p>Fraud, Illegal Acts, Violations of Provisions of Contracts or Grant Agreements, and Abuse 8.21 When auditors conclude, based on sufficient, appropriate evidence, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, they should report the matter as a finding.</p>	
<p>8.22 When auditors detect violations of provisions of contracts or grant agreements, or abuse that are not significant, they should communicate those findings in writing to officials of the audited entity unless the findings are inconsequential within the context of the audit objectives, considering both qualitative and quantitative factors. Determining whether or how to communicate to officials of the audited entity fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that is inconsequential is a matter of the auditors' professional judgment. Auditors should document such communications.</p>	
<p>Reporting Findings Directly to Parties Outside the Audited Entity 8.24 Auditors should report known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse directly to parties outside the audited entity in the following two circumstances.¹⁰³</p> <ul 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 	

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<p>likely fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that (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> <p>¹⁰³Internal audit organizations do not have a duty to report outside the entity unless required by law, rule, regulation, or policy. ...</p>	
<p>8.25 The reporting in paragraph 8.24 is in addition to any legal requirements 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.</p>	
<p>8.26 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, and funding agreements. When auditors are unable to do so, they should report such information directly as discussed in paragraph 8.24.</p>	
<p>Conclusions 8.27 Auditors should report conclusions, as applicable, based on the audit objectives and the audit findings. ...</p>	
<p>Recommendations 8.28 Auditors should recommend actions to correct problems identified during the audit and to improve programs and operations when the potential for improvement in programs, operations,</p>	

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<p>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 problems, and clearly state the actions recommended.</p>	
<p>Reporting Auditors' Compliance with GAGAS 8.30 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. ...</p> <p>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>8.31 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 (1) the language in 8.30, modified to indicate the standards that were not followed or (2) language that the auditor did not follow GAGAS. ...</p>	<p>1321 – Use of Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> 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 <i>International Standards for the Professional Practice of Internal Auditing</i> 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 8.33 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</p>	<p>Practice Advisory 2410-1: Communication Criteria ... 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</p>

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<p>responsible officials to verify that the comments are accurately stated.</p> <p>8.34 Auditors should also include in the report an evaluation of the comments, as appropriate. ...</p> <p>8.36 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>8.37 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>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>
<p>Reporting Confidential or Sensitive Information</p> <p>8.38 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 makes the omission necessary.</p> <p>8.41 Considering the broad public interest in the program or activity under review 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>8.42 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>...</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>

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<p>Distributing Reports</p> <p>8.43 Distribution of reports completed under GAGAS depends on the relationship of the auditors to the audited organization and the nature of the information contained in the report. If the subject of the audit involves material that is classified for security purposes or contains confidential or sensitive information, auditors may limit the report distribution. ... Auditors should document any limitation on report distribution. The following discussion outlines distribution for reports completed under GAGAS:</p> <ol style="list-style-type: none"> a. Audit organizations in government entities should distribute audit reports to those charged with governance, to the appropriate officials of the audited entity, 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. b. Internal audit organizations in government entities may follow the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing. Under 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: (1) assess the potential risk to the organization, (2) consult with senior management and/or legal counsel as appropriate, and (3) control dissemination by indicating the intended users of the report. c. Public accounting firms contracted to perform an audit under GAGAS should clarify report distribution responsibilities with the engaging organization. If the contracted firm is to make 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>2440 – Disseminating Results</p> <p>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>

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<p>Management's Role in Accountability A1.08 Government managers have fundamental responsibilities for carrying out government functions. ... Management of the audited entity is responsible for</p> <p>...</p> <p>f. 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>Nonaudit Services A3.02 Audit organizations in government entities frequently provide nonaudit services that differ from the traditional professional services provided by an accounting or consulting firm to or for the audited entity. ...</p> <p>A3.03 Examples of these types of services include the following:</p> <p>...</p> <p>k. providing audit, investigative, and oversight-related services that do not involve a GAGAS audit (but which could be performed as an audit, if the audit organization elects to do so), such as</p> <p>...</p> <p>(3) periodic audit recommendation follow-up engagements and reports ;...</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 Risks 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 A8.02 The auditor may use the report quality elements of timely, complete, accurate, objective, convincing, clear, and concise when developing and writing the auditor's 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>

