Audit Standards
Let's Refresh

Outline
• Changes in the IIA Standards
• Changes in the Yellowbook Standards
• Attribute/General Standards
• Performance/Fieldwork Standards
• Reporting Standards
• Key Differences

Changes to the IIA Standards
July 2015
Introduced the new and improved International Professional Practices Framework (IPPF)

- Introduced a Mission Statement
- Added the Core Principles for Internal Auditing Practice
- Transitioned Practice Advisories to Implementation Guidance
- Merged Practice Guides and Global Technology Audit Guides (GTAGS) into Supplemental Guidance

January 1, 2017
New Standards are effective!

- Two new standards, pertaining to:
  - CAEs taking on roles in risk management, compliance, or other roles beyond internal auditing
  - Assurance engagement after previously consulting in that area
- Alignment of the Standards to the Core Principles:
  - “Aligns with the strategies, objectives, and risks of the organization,”
  - “Is insightful, proactive, and future-focused.”
- Updates to existing Standards:
  - Communications
  - QAIP (NAA – Peer reviews)

Changes to the Yellowbook
April 5, 2017 - July 6, 2017
Exposure Draft Comment Period

• Changes to its format and structure,
• Updates on the following topics:
  - Independence
  - Competence and Continuing Professional Education
  - Quality Control and Peer Review
  - Financial Audits
  - Attestation Engagements and Reviews of Financial Statements
  - Performance Audits

Stay tuned – Next Year!

GAGAS vs IIA
Differences
Applicability

GAGAS
- Auditors of Government entities
- Auditors of entities that receive government awards
- Entities performing GAGAS Audits

IPPF
- Internal Auditors worldwide
- All Industries

Attribute/General Standards

GAGAS
- Independence
- Professional Judgement
- Competence
- Quality Control & Assurance

IIA
- Purpose, Authority, Responsibility
- Independence & Objectivity
- Proficiency & Due Professional Care
- Quality Assurance & Improvement Program
### Purpose, Authority & Responsibility

**GAGAS**
- Defined Engagement by Engagement
  - Financial Audits
  - Attestations Engagements
  - Performance Audits
  - Non-audit Services

**IAA**
- Charter
  - Defined nature of assurance services
  - Nature of consulting services

### Independence & Objectivity

**GAGAS**
- 3.02 "In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent."
  - Mind
  - Appearance
  - Organizational
    - 3.02 - 3.32 (>22 pages!)

**IAA**
- 1100 Independence and Objectivity
  - The internal audit activity must be independent, and internal auditors must be objective in performing their work."
- Organization Independent
- Auditors Objective

### Independence & Objectivity

**GAGAS**
- INTERNAL AUDITORS
  - Orange encouraged
  - Head charged with governance
  - Results reported
  - Organizationally outside line management
  - Access to those charged with Governance
  - Sufficiently removed from political pressures

**IAA**
- Level within the organization without interference
- Direct interaction with the board
- Safeguards for roles outside of Internal Auditing
- Individual Objectivity
- Disclosure of impairments
Knowledge, Skills, and Abilities

**Competence**

- Collectively possess adequate professional competence
  - Knowledge of GAGAS
  - General knowledge of environment
  - Skills to communicate clearly and effectively
  - Skills appropriate for the work being performed (i.e. sampling, IT, engineering)
  - Special knowledge as appropriate (GAAP, SAS, SSAE)

**Proficiency & Due Professional Care**

- Must possess the knowledge and skills
  - Collectively within work group
  - Evaluate risk of fraud
  - Knowledge of key information technology risks
  - Decline engagements/consult out if lacking knowledge and skills
  - Exercise Due Professional Care

Continuing Professional Education

**GAGAS**

- Every two year
- 24 Hours
  - Government Auditing
  - Government Environment
  - Specific or Unique Environment
- Planning, directing or reporting
  - 56 Additional Hours
- At least 20 hours/year

**IIA**

- Must enhance:
  - Knowledge
  - Skill
  - Other Competencies
  - Meet Certification Requirements
- CIA - 40 hours a year
  - Auditing or Accounting
  - Management & Communication
  - Computer Science, Math, Econ, Law
  - Specific business topic/Industry

Quality Assurance and Control

**GAGAS**

- System of Quality Control
  - Encompass leadership, quality work, policies and procedures
  - Documented
  - On-going, periodic assessments
- External Peer Review
  - Every 3 years
  - Rules
  - Report Requirements

**IIA**

- Must develop a program to ensure conformance
  - Cover all aspects of the activity
  - Internal Assessments
    - On-going (day to day sup)
    - Periodic
  - External Assessments (QAIP)
    - Every 5 years
    - Independent qualified team
**Differences Between Fieldwork/Performance Standards**

**GAGAS**
- Reasonable Assurance
- Significance
- Audit Risk
- Planning
- Supervision
- Evidence
- Audit Documentation

**IIA**
- Managing the Internal Audit Activity
- Nature of the work
- Engagement Planning
- Performing the engagement
- Communicating Results
- Monitoring Progress
- Resolution of Senior Management’s Acceptance of Risk

**Managing the Internal Audit Activity**

**2000** The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

- Effectively managed when:
  - Achieves its purpose identified in the charter
  - Conforms with the standards
  - Each auditor conforms to the Code of Ethics
  - It considers trends and emerging issues
  - Enhances governance, risk management and control processes

- Adds Value if it considers:
  - Strategies
  - Objectives
  - Risk
Annual Audit Plan

2010 - Planning
The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

- Documented risk assessment
- Annually
- Consider expectation of senior management
- Senior Management Approval
- Resource constrained

Reasonable Assurance

6.03 - In performance audits that comply with GAGAS, auditors obtain reasonable assurance that evidence is sufficient and appropriate to support the auditors' findings and conclusions in relation to the audit objectives.

- Depends on the engagement
- Evaluate whether evidence
  - Sufficient
  - Appropriate

Significance & Risk/
Nature of the audit

GAGAS
- Significance (AKA Material)
  - Relative importance
  - Context
  - Quantitative
  - Qualitative
- Audit Risk
  - Findings, conclusions, recommendations or assurances
  - Improper or incomplete

IIA
- Nature
  - Contribute to the improvement
  - Governance
  - Risk Management
  - Control Processes
  - Systematic
  - Disciplined
  - Risk Based
Planning

GAGAS
- Planned to reduce audit risk
- Should assess audit risk & significance and apply to the audit objectives and the scope/methodology

IIA
- Must consider
  - Organization’s strategies
  - Organization’s Objectives
  - Risk relevant to the engagement

Planning Considerations

GAGAS
- Should assess nature and profile of program considering the potential users
- Within in context of audit objectives
  - Internal Controls
  - Information systems controls
  - Laws, regulations, contracts, grant agreements
  - Potential fraud and abuse
  - Ongoing investigations
  - Results of previous audits/attestations

IIA
- Must consider
  - Strategies and objectives of the activity
  - Significant risks to the objectives, resources and operations
  - Adequacy and effectiveness of governance, risk management and control
  - Opportunities for making significant improvements to governance, risk management and control processes

Audit Plan

GAGAS
- Prepare a written plan
- May include
  - Strategy
  - Audit program
  - Project plan
  - Audit planning paper
  - Key decisions
  - Audit objectives
  - Scope and methodology

IIA
- Work Program
  - Engagement Objectives
  - Scope
  - Resource allocation
  - Procedures for identifying, analyzing, evaluating and documenting information
**Supervision**

**GAGAS**
- Must supervise staff
  - Providing sufficient guidance
  - Staying informed on problems encountered
  - Reviewing work
  - Provide OJT
- Nature and Extent depending on
  - Size of audit
  - Significance of work
  - Experience of staff

**IA**
- Properly supervise
  - Depend on proficiency and experience of internal auditors

**Evidence**

**GAGAS**
- Sufficient
  - Persuade a knowledgeable person
- Appropriate
  - Relevant
  - Valid
  - Reliable
- Provide a reasonable basis for conclusion

**IA**
- Sufficient
- Reliable
- Relevant
- Useful
- To achieve objectives

**Elements of Finding**

**GAGAS**
- Criteria
- Condition
- Cause
- Effect or Potential Effect

**IA**
- 5 C’s
  - Criteria
  - Condition
  - Consequence
  - Cause
  - Corrective Action
Documentation

GAGAS 6.79

“Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.”

IIA 2330

Must document sufficient, reliable, relevant and useful information to support the engagement results and conclusions.

2310 (Interpretation)

Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor.

Differences Between Reporting Standards

GAGAS
- Reporting
- Report Contents
- Distributing Reports

IIA (Performance Standards)
- Managing the Internal Audit Activity
- Nature of the work
- Engagement Planning
- Performing the engagement
- Communicating Results
- Monitoring Progress
- Resolution of Senior Management’s Acceptance of Risk

Reporting Standards
Reporting

GAGAS
- Auditors must issue audit reports communicating the results of each completed performance audit (7.03)
- Appropriate form
- Purpose
  - Communicate results
  - Reduce misunderstandings
  - Make available to public
  - Facilitate follow-up

IIA
- Internal auditors must communicate the results of engagements (2400)

Report Content

GAGAS
- Audit Objectives
- Scope and Methodology
- Support findings
- Report Limitations
- Perspective of findings
- Background Information
- Deficiencies in Internal Control, instances of fraud, and non-compliance
- Conclusions
- Recommendations

IIA
- Engagement's objectives
- Scope
- Results
- Applicable conclusions
- Where appropriate, opinion
- Must be accurate, objective, clear, concise, constructive, complete and timely

Report Content (cont)

GAGAS
- GAGAS Conformance
- Views of Responsible Officials

IIA
- Conducted in conformance with the International Standards for the Professional Practice of Internal Auditing
- Satisfactory Performance
- Outside parties - limitations for distribution
Distribution of Report

**GAGAS**
- Government Auditors
  - Those charged with governance
  - Copies to others with legal oversight
- Internal Auditors
  - Parties who give results due consideration
  - Mandated by statute/regulations
- Public Accounting Firms
  - In accordance with the engagement agreement

**BA**
- Appropriate Parties
  - Due Consideration
- Additional follow-up
  - Must have a system to monitor the disposition of results
  - Must communicate when management has accepted unacceptable levels of risk

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**Key Differences**

**Differences**

**GAGAS**
- 3 Categories of Standards
- Independent & Objective
- Non-Audit Services
- Focus - Audit Risk & Significance
- Written Report
- Experienced auditor, having no previous connection to the audit, to understand

**BA**
- 2 Categories of Standards
- Objective & Organizationally Independent
- Consulting Activities
- Focus - Organization's strategies, objectives and risk & Adding Value
- Must Communicate
- Prudent, informed person would reach the same conclusions as the auditor
Questions

Let's Refresh

The End
...that's all folks...
Audit Standards
Let's Refresh