Course Objectives

1. Identify key requirements of the International Professional Practices Framework and related guidance from the Institute of Internal Auditors.

2. Understand the relationship between the internal audit function and the audited organization.

3. Recognize how the internal audit function helps an organization accomplish its objectives.
Topics

- International Professional Practices Framework (IPPF)
- Generally Accepted Government Auditing Standards (GAGAS)
- Internal v. External Auditing
- Historical Perspective
- The Next Generation
- Elements of the Profession
- Three Lines Model
- IIA Value Proposition
- The Effective Internal Auditor
- How to Add Value
- 7 Deadly Sins of Internal Auditing
Pay close attention and take extra notes wherever this symbol appears!
The AIG recommends that OIGs perform audits pursuant to one of the following:

1. Government Auditing Standards, or
2. Standards for the Professional Practice of Internal Auditing
Issues the International Professional Practices Framework (Red Book)
International Professional Practices Framework (Red Book)
Generally Accepted Government Auditing Standards (Yellow Book)

2011 Yellow Book updated in 2018, effective July 1, 2019 for performance audits and June 30, 2020 for financial audits
Red Book NEW AND IMPROVED!
Red Book

- Launched July 2015
  - Introduced Mission.
  - Introduced 10 Core Principles.
  - Implementation Guides.

Effective Date – Jan 1, 2017

Source: www.theiia/guidance/ippf.org
Why Revise the Standards?

- The Standards must remain current, relevant, and timely for the profession
- The IPPF process requires that the Standards be reviewed at least once every three years
- Ongoing changes are a key component of the continued development of the IPPF

New IPPF introduced in 2015

- Included new mandatory guidance, the Core Principles for the Professional Practice of Internal Auditing.

IIASB reviewed relationship between the Standards and the Core Principles.

- Proposed changes better highlight the relationship.
Top Five Areas of Concern

Ranked by percentage of respondents expressing concerns.

<table>
<thead>
<tr>
<th>Standard</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1112 Interpretation – Chief Audit Executive Roles Beyond Internal Auditing</td>
<td>14.3</td>
</tr>
<tr>
<td>2010 – Planning</td>
<td>11.5</td>
</tr>
<tr>
<td>1112 – Chief Audit Executive Roles Beyond Internal Auditing</td>
<td>10.2</td>
</tr>
<tr>
<td>1130.A3 – <em>implementation standard related to</em> 1130 – Impairment to Independence or Objectivity</td>
<td>10.2</td>
</tr>
<tr>
<td>2060 Interpretation – Reporting to Senior Management and the Board</td>
<td>9.7</td>
</tr>
</tbody>
</table>
Key Changes to the Standards

New standards address:

• Stakeholder expectations for Chief Audit Executive roles that have expanded over time.
• Potential objectivity-impairing situation of performing assurance role after previous consulting role.

Updates to existing standards clarify requirements:

• Relationship between new Core Principles, such as “Is insightful, proactive and future-focused,” and the Standards.
• Quality assessment and improvement program.
• Communications between chief audit executive, the board, and senior management.
• Scope of external quality assessment: must opine on conformance with the Standards and Code of Ethics.
Key Changes to the Standards

Updates to the Introduction:
• Clarify that the Standards, together with the Code of Ethics, encompass all Mandatory Guidance elements including Definition and Core Principles.
• Modifications to enhance the flow and clarify the Introduction.

Updates to the Glossary:
• Added definition of Core Principles.
• Modified definition of Board.
• Modified definition of IPPF.
• Modified definition of chief audit executive.
Mission

“To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.”
Mandatory Guidance
Core Principles

1. Integrity
2. Competence/Due Professional Care
3. Objective/Independent
4. Aligned with Organization
5. Quality
6. Communicates Effectively
7. Risk-based Assurance
8. Insight and Foresight
9. Promotes Organizational Improvement
Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
• Two Essential Components
• Applies to both entities and individuals
• Promotes an ethical culture
• Compliance is mandatory
Principles
1. Integrity – Establishes trust
2. Objectivity - Not unduly influenced
3. Confidentiality - Nondisclosure
4. Competency - KSAs
Rules of Conduct

Break down the four (4) Principles into applicable rules for internal auditors ("Shalls" and "shall nots")

Internal auditors:

• 1.1 Shall perform their work with honesty, diligence, and responsibility

• 2.1 Shall not accept anything that may impair, or be presumed to impair their professional judgment.
The Standards

- Compliance is mandatory
- Applies to the individual internal auditor and the internal audit activity
Assurance Services

Include:
- Financial
- Compliance
- Performance
Consulting Services

- Internal auditors should NOT assume management responsibility
- Should maintain objectivity
The *Standards* Consist of

**Attribute Standards**
- Organization and Auditor

**Performance Standards**
- Audit work

**Interpretations**
- Provide further clarity to terms and phrases

**Implementation Guidance**
- Provide more guidance based on the specific type of audit engagement (Assurance or Consulting)
# Standards Overview

<table>
<thead>
<tr>
<th>Attribute Standards</th>
<th>Performance Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000 Purpose, Authority, and Responsibility</td>
<td>2000 Managing the Internal Auditing Activity (OIG)(</td>
</tr>
<tr>
<td>1100 Independence and Objectivity</td>
<td>2100 Nature of Work</td>
</tr>
<tr>
<td>1200 Proficiency and Due Professional Care</td>
<td>2200 Engagement Planning</td>
</tr>
<tr>
<td>1300 Quality Assurance and Improvement Program</td>
<td>2300 Performing the Engagement</td>
</tr>
<tr>
<td></td>
<td>2400 Communicating Results</td>
</tr>
<tr>
<td></td>
<td>2500 Monitoring Progress</td>
</tr>
<tr>
<td></td>
<td>2600 Communicating the Acceptance of Risks</td>
</tr>
</tbody>
</table>
Key Terminology

• **Board** *(Organization’s governing body)*
• **Chief Audit Executive (IG)** *(for Audit director)*
• **Engagement** *(specific assignment)*
• **Engagement Work Program** *(list of procedures for an engagement)*
• **Internal Audit (OIG) Activity** *(for department)*
Attribute Standards

1000 – Purpose, Authority, and Responsibility

• The purpose, authority, and responsibility of the internal audit (OIG) activity must be formally defined in an internal audit (OIG) charter.

• The chief audit executive (IG) must periodically review the internal audit (IG) charter and present it to senior management and the board for approval.
1100 – Independence and Objectivity

The internal audit activity (OIG) must be independent, and internal auditors must be objective in performing their work.

- Organizational Independence
- Direct Interaction with the Board
- Chief Audit Executive (IG) Roles Beyond Internal Auditing
- Individual Objectivity
- Impairment to Independence or Objectivity
Attribute Standards (Cont’d.)

1200 – Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

- Proficiency
- Due Professional Care
- Continuing Professional Development
1300 – Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit (OIG) activity.
Attribute Standards (Cont’d.)

1300 – Quality Assurance and Improvement Program (continued)

**Internal Assessments**
- Ongoing internal monitoring
- Periodic

**External Assessments**
- Periodic
- Reporting of the Quality Assurance and Improvement Program
- Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing” (OIG)
- Disclosure of Nonconformance
Why Uphold Standards???

CREDIBILITY
CREDIBILITY
CREDIBILITY
CREDIBILITY
CREDIBILITY
CREDIBILITY
CREDIBILITY

SOMETIMES IT’S THE LAW
2000 – Managing the Internal Audit (OIG) Activity

The chief audit executive must effectively manage the internal audit (OIG) activity to ensure it adds value to the organization.

- Planning
- Communication & Approval
- Resource Management
- Policies and Procedures
- Coordination and Reliance
- Reporting to Senior Management and the Board
- External Service Provider and Organizational Responsibility for Internal Auditing (OIG)
Performance Standards (Cont’d.)

2100 – Nature of Work

• The internal audit (OIG) activity must evaluate and contribute to the improvement of the organization’s governance, risk management, control processes using a systematic, disciplined, and risk-based approach.

• Internal audit (OIG) credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

  ➢ Governance
  ➢ Risk Management
  ➢ Control
Performance Standards (Cont’d.)

2200 – Engagement Planning
Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing and resource allocations. The plan must consider the organization’s strategies, objectives, and risks relevant to the engagement.

- Planning Considerations
- Engagement Objectives
- Engagement Scope
- Engagement Resource Allocation
- Engagement Work Program
Performance Standards (Cont’d.)

2300 – Performing the Engagement

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

- Identifying Information
- Analysis and Evaluation
- Documenting Information
- Engagement Supervision
Performance Standards (Cont’d.)

2500 – Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.
Performance Standards (Cont’d.)

2600 – Communicating the Acceptance of Risks

• When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management.

• If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.
Implementation Guidance
Implementation Guidance

• Provide more guidance based on the specific type of audit engagement (Assurance or Consulting)

• Begin with the letters “IG”
Supplemental Guidance/Practice Guides

• 11 Global Technology Audit Guides (GTAG)

• Additional Practice Guides will be issued regularly
Generally Accepted Government Auditing Standards (Yellow Book)

2011 Yellow Book updated in 2018, effective July 1, 2019 for performance audits and June 30, 2020 for financial audits
Yellow Book

- Required for appointed federal inspectors general for audits of federal establishments, organizations, programs, activities, and functions (IG Act)

- Required for audits of major executive branch departments’ and agencies’ financial statements (CFO Act)

- Required for audits of executive agencies not subject to the CFO Act (The Accountability of Tax Dollars Act)

- Required for audits of state and local governments and nonprofit entities that receive federal awards (Single Audit Act)

- May be required by state and local laws

- May be required by contract

- May be required by federal audit guidelines for program requirements
Yellow Book and Red Book Comparison
### Yellow Book Vs. Red Book

<table>
<thead>
<tr>
<th><strong>YELLOW BOOK</strong></th>
<th><strong>RED BOOK</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>AIG Recommended Standard</td>
<td>AIG Recommended Standard</td>
</tr>
<tr>
<td>Used both in the United States and in other countries voluntarily</td>
<td>Used both in the United States and in other countries voluntarily</td>
</tr>
<tr>
<td>Three types of engagements/audits: financial, attestation, and performance</td>
<td>Two types of engagements/services: assurance and consulting</td>
</tr>
<tr>
<td>Requires completion of 80 hrs. of CPE in every 2-year period.</td>
<td>Requires enhancement of knowledge, skills and other competencies through continuing professional development.</td>
</tr>
<tr>
<td>Non-financial program audits include processes, projects, studies, policies, operations, activities, entities, and functions.</td>
<td>Assurance services audits apply to the entity, operation, function, process, system, or other subject matter.</td>
</tr>
</tbody>
</table>
### Internal Vs. External Audit

<table>
<thead>
<tr>
<th></th>
<th>Internal Audit</th>
<th>External Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Placement</strong></td>
<td>Internal - Administratively part of organization (employees)</td>
<td>External - Independent body outside of the organization</td>
</tr>
<tr>
<td><strong>Appointment</strong></td>
<td>CAE Hired by board, audit committee, or senior executive (Administratively reporting to the organization’s management structure to facilitate day-to-day operations)</td>
<td>Appointed by Organization stakeholders (Typically through the Audit Committee)</td>
</tr>
<tr>
<td><strong>Responsibility</strong></td>
<td>Operations, information technology, strategic initiatives, fraud investigations, process and control optimization, compliance, etc.</td>
<td>Financial statements, financial accounts, financial risks, etc.</td>
</tr>
<tr>
<td><strong>Objectives</strong></td>
<td>Engagements directed by annual, risk-based audit plan</td>
<td>Required – Statute, regulation, etc.</td>
</tr>
</tbody>
</table>
Internal Auditing—A Historical Perspective

- Generations
  - Pre-1980’s
  - 1980’s
  - 1990’s
  - 2000’s
# A Historical Perspective (Cont’d.)

<table>
<thead>
<tr>
<th>1st Generation</th>
<th>(Pre 1980’s)</th>
<th>Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start with existing processes, procedures and control activities</td>
<td>Audit for Compliance</td>
<td></td>
</tr>
</tbody>
</table>
## A Historical Perspective (Cont’d.)

<table>
<thead>
<tr>
<th>1st Generation</th>
<th>2nd Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Pre 1980’s)</td>
<td>(1980’s)</td>
</tr>
<tr>
<td>Controls</td>
<td>Control Framework</td>
</tr>
<tr>
<td>Start with existing processes, procedures and control activities</td>
<td>Start with financial compliance risks</td>
</tr>
<tr>
<td>Audit for Compliance</td>
<td>Determine controls that should be in place. Audit for design, operational effectiveness and compliance</td>
</tr>
</tbody>
</table>
# A Historical Perspective (Cont’d.)

<table>
<thead>
<tr>
<th>1st Generation</th>
<th>2nd Generation</th>
<th>3rd Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Pre 1980’s)</td>
<td>(1980’s)</td>
<td>(1990’s)</td>
</tr>
<tr>
<td>Controls</td>
<td>Control Framework</td>
<td>Risks</td>
</tr>
<tr>
<td><strong>Start with existing processes, procedures and control activities</strong></td>
<td><strong>Start with financial compliance risks</strong></td>
<td><strong>Start with a thorough understanding of the organization and associated risks</strong></td>
</tr>
<tr>
<td><strong>Audit for Compliance</strong></td>
<td><strong>Determine controls that should be in place. Audit for design, operational effectiveness and compliance</strong></td>
<td><strong>Determine controls that should be in place. Audit for design, operational effectiveness, and compliance</strong></td>
</tr>
</tbody>
</table>
## A Historical Perspective (Cont’d.)

<table>
<thead>
<tr>
<th>1st Generation</th>
<th>2nd Generation</th>
<th>3rd Generation</th>
<th>4th Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controls</td>
<td>Control Framework</td>
<td>Risks</td>
<td>Enterprise-Wide Risk Management</td>
</tr>
<tr>
<td>Start with existing processes, procedures and control activities</td>
<td>Start with financial compliance risks</td>
<td>Start with a thorough understanding of the organization and associated risks</td>
<td>Start with a thorough understanding of the organization and associated risks</td>
</tr>
<tr>
<td>Audit for Compliance</td>
<td>Determine controls that should be in place. Audit for design, operational effectiveness and compliance</td>
<td>Determine controls that should be in place. Audit for design, operational effectiveness, and compliance</td>
<td>Determine the risk management process that should be in place to effectively manage the key risks. Audit for design operational effectiveness and compliance within each process</td>
</tr>
</tbody>
</table>
## A Historical Perspective (Cont’d.)

<table>
<thead>
<tr>
<th>Generation</th>
<th>1&lt;sup&gt;st&lt;/sup&gt; Generation</th>
<th>2&lt;sup&gt;nd&lt;/sup&gt; Generation</th>
<th>3&lt;sup&gt;rd&lt;/sup&gt; Generation</th>
<th>4&lt;sup&gt;th&lt;/sup&gt; Generation</th>
<th>The Next Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controls</td>
<td></td>
<td>Control Framework</td>
<td>Risks</td>
<td>Enterprise-Wide Risk Management</td>
<td>?</td>
</tr>
<tr>
<td>Start with existing processes, procedures and control activities</td>
<td></td>
<td>Start with financial compliance risks</td>
<td>Start with a thorough understanding of the organization and associated risks</td>
<td>Start with a thorough understanding of the organization and associated risks</td>
<td>?</td>
</tr>
<tr>
<td>Audit for Compliance</td>
<td></td>
<td>Determine controls that should be in place. Audit for design, operational effectiveness and compliance</td>
<td>Determine controls that should be in place. Audit for design, operational effectiveness, and compliance</td>
<td>Determine the risk management process that should be in place to effectively manage the key risks. Audit for design operational effectiveness and compliance within each process</td>
<td>?</td>
</tr>
</tbody>
</table>
The Next Generation

- Risk-centric
- Technology
- Continuous Auditing
- Timely, Concise Reporting
- Assessing Operations
- Fraud Risk Assessments
- Accountability and Transparency
The Next Generation (Cont’d.)

- From Compliance Specialists to Strategic Advisors
- From Assurance Provider to Strategic Advisor
- Align Expectations, Build Capabilities, Deliver Quality and Increase Value
Elements of the Profession

- Initial Professional Education
- Skills/Professional Development
- Certification/Licensing
- Professional Associations
- Code of Ethics
- Organizational Certification
GOVERNING BODY
Accountability to stakeholders for organizational oversight

Governing body roles: integrity, leadership, and transparency

MANAGEMENT
Actions (including managing risk) to achieve organizational objectives

First line roles: Provision of products/services to clients; managing risk
Second line roles: Expertise, support, monitoring and challenge on risk-related matters

EXTERNAL ASSURANCE PROVIDERS

INTERNAL AUDIT
Independent assurance

Third line roles: Independent and objective assurance and advice on all matters related to the achievement of objectives

Source: IIA, Lake Mary, Fla. (July 20, 2020)
IIA Value Proposition
Results suggest that alignment of stakeholder expectations, and matching skills and capabilities to these expectations, helps internal audit enhance the value delivered to the organization.
"On internal audit, audit committees are still looking for greater value."

2015 Global Audit Committee Survey from KPMG's Audit Committee Institute
Trusted Advisor

TRUSTWORTHINESS =
Credibility + Reliability + Relationship Strength
Self-interest
“There is no more enduring challenge for internal auditors than achieving and maintaining alignment with the expectations of our key stakeholders.”

Richard Chambers, Former President and CEO of the IIA, February 2015
Value Adding Factors

- Deep Knowledge of the Organization
- Courage to Innovate
- Creativity
- Broad Knowledge of Professional Practices
Value-Adding Characteristics

1. Extensive Staff Expertise
2. A Challenging Work Environment
3. Organizational Alignment
4. Participative, Qualitative, Real-time Risk Assessment
5. An Array Of Audit Services
The Effective Internal Auditor

Technical Skills
- Auditing and Accounting Skills
- Industry Knowledge & Regulatory Awareness
- Financial and Information Technology Acumen

“Soft” or People Skills
- Managing Employees
- Professional Image
- Conflict Resolution and Negotiation Skills

Value & Fit
- Understanding the value of Internal Auditing and how it fits in with the organization
Internal Auditors – Adding Value

- Relationships
- Business
- Judgment
- Competency
- Professional Development
- Attributes
Relationships

- Relationship Management
- Conflict Resolution Skills
- Strong Interpersonal Skills
- Strong Communication – Both Oral and Written
- Facilitate Communications
- Socially Adept
- Become and Seek a Mentor
Business

- Strong Business Insight and Acumen
- Understanding the Business Context
- Knowledge of the Issues Facing the Organization
- Provide Management Information in terms of Dashboards not Rearview Mirrors
Judgment

- Professionalism
- Due Professional Care
- Materiality
- Resource Utilization – Watch out for Scope Creep!
Competency

- Diverse Skill Sets
- Experience
- Fresh Outlook – Deep Sense of Curiosity
- Results Oriented
- Certified
- Committed
- Focused
Professional Development

- Become Engaged in your Work and Profession
- Enhance your Skills through Education and Certification
- Become More IT Savvy
- Do Your Research
- Broaden Your Experience Base
Attributes

- Develop a Sense of Urgency Focused on Management Priorities
- Be a Team Player – Help Others Be Successful
- Recognize and Share Innovative Ideas and Practices
- Collaborate with Others
- Develop a Network – Before You Need It!
- Step Outside of Your Comfort Zone
- Volunteer – Identify a Need and Step Up!
7 Deadly Sins of Internal Auditing

1. Ineffective Planning
2. Being Self-centered
3. Losing the Truth
4. Ineffective Communication
5. Failing Political Science
6. Inability to Negotiate
7. Destroying Credibility
Summary

1. Identified key requirements of the International Professional Practices Framework and related guidance from the Institute of Internal Auditors.

2. Understand the relationship between the internal audit function and the audited organization.

3. Recognize how the internal audit function helps an organization accomplish its objectives.
Resources

- The IIA – www.theiia.org
- ISACA – www.isaca.org
- AGA – www.agacgfm.org
- AIG – http://inspectorsgeneral.org/
- COSO – www.coso.org
- AICPA – www.aicpa.org
- AUDITNET – www.auditnet.org
- KnowledgeLeader – www.knowledgeleader.com
Questions?
Comments?

Presented by:
Maxene M. Bardwell, CPA, CFE, CIA, CIGA, CISA, CRMA
Assistant Inspector General for Audit
WSSC Water Office of the Inspector General
(301) 206-8300
Maxene.bardwell@wsscwater.com