

Yellow Book and Internal Auditing



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Course Objectives

1

Identify key requirements of the International Professional Practices Framework and the Generally Accepted Government Auditing Standards with an emphasis on GAGAS.

2

Understand the difference between internal and external auditing.

3

Understand the Three Lines of Defense Model.



Topics

Global Internal Audit Standards.

Generally Accepted Government Auditing Standards.

Internal v. External Auditing.

Three Lines Model.

Passing the Exam...



- ▶ Pay close attention and take extra notes wherever this symbol appears!



Passing the Exam... (Cont'd.)

*Believe in
yourself*





PRINCIPLES AND STANDARDS FOR OFFICES OF INSPECTOR GENERAL

REVISED & APPROVED
OCTOBER 22, 2022

EFFECTIVE JULY 1, 2024



ASSOCIATION OF INSPECTORS GENERAL
524 West 59th Street
New York, NY 10019
www.inspectorsgeneral.org

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.
(now called Global Internal
Audit Standards)*

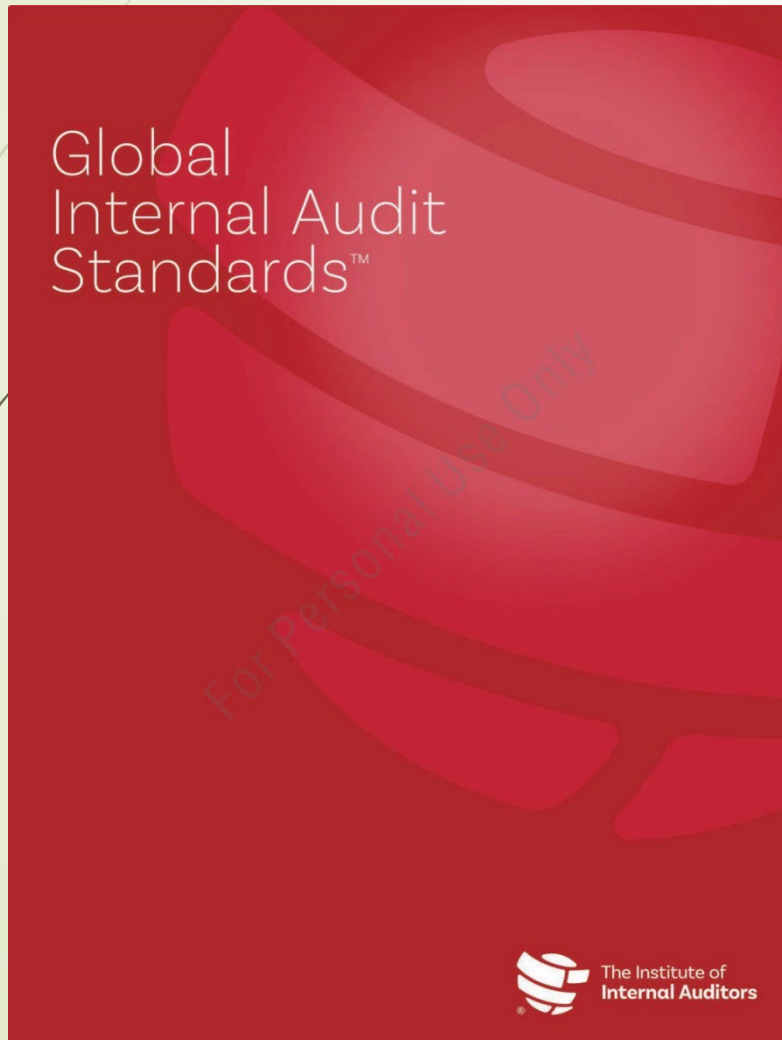




The Institute of
Internal Auditors

*Global Internal Audit
Standards (Red Book).*

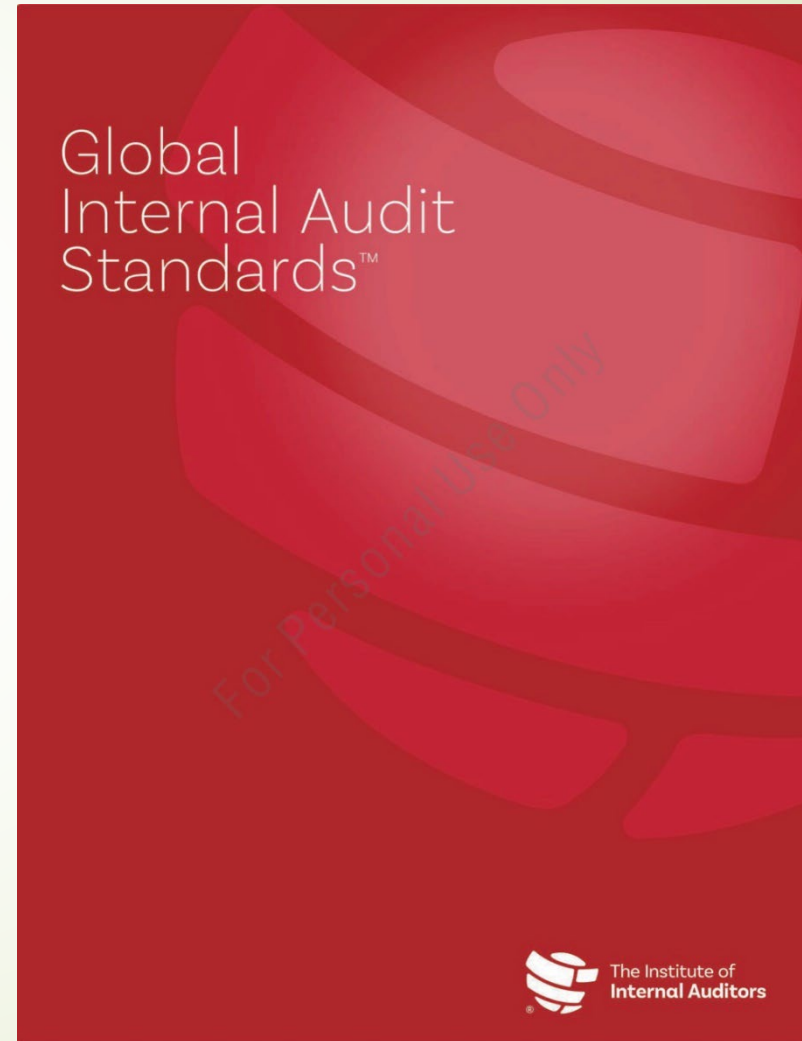
International Professional Practices Framework (Red Book)



International
Professional Practices
Framework®
(IPPF)

The Standards

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



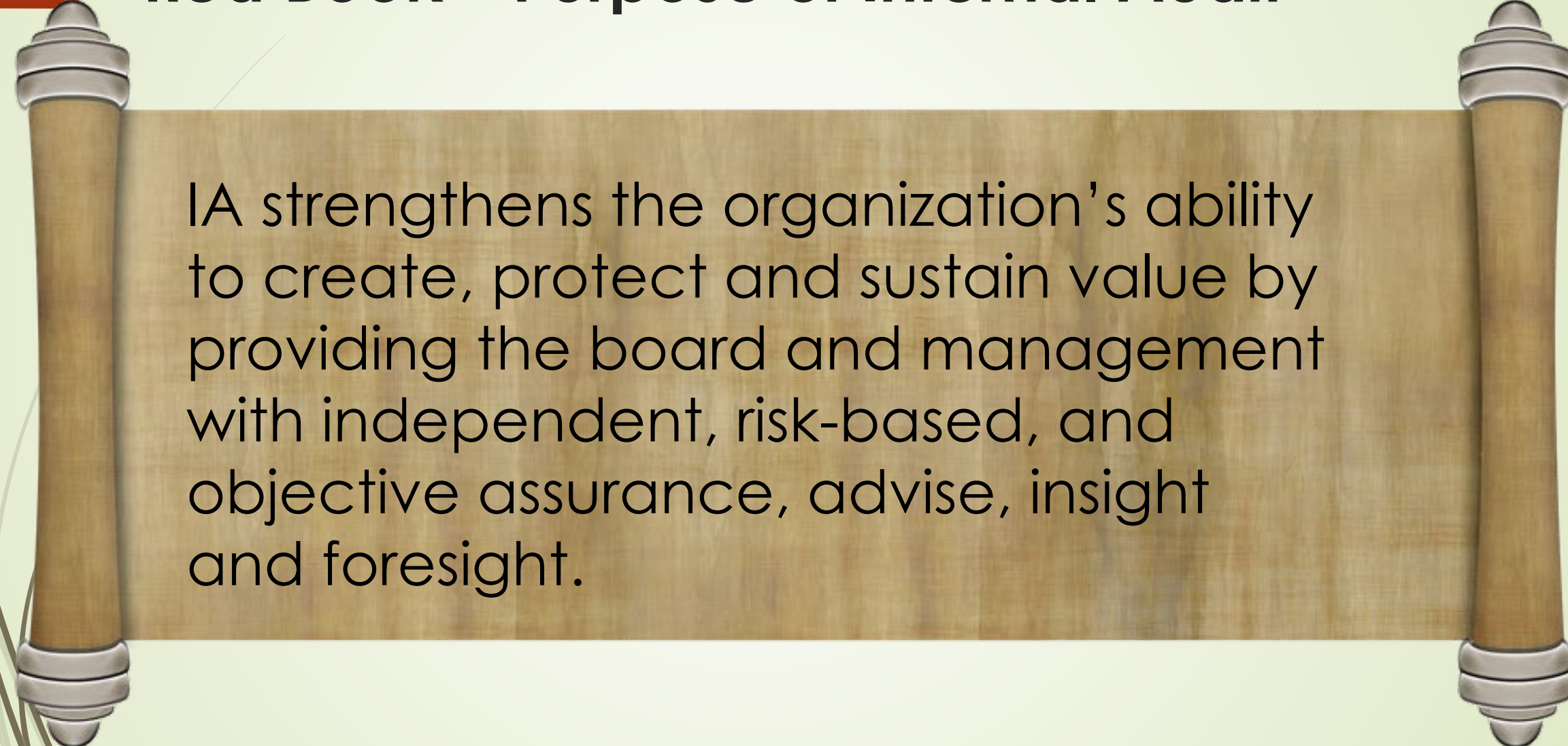
Red Book – Revising the Standards

Here is an overview of IPPF-related resources and when you can expect to see them.

Now Available	Feb 2024	Mar 2024	Q2-Q4 2024	Q1-Q2 2025
<ul style="list-style-type: none"> • Global Internal Audit Standards™ basic PDF • Condensed version of the Global Internal Audit Standards • Report on the Standard-setting and Public Comment Processes for the Global Internal Audit Standards • Institute and chapter leader graphics, presentations, resources 	<ul style="list-style-type: none"> • Tools: 2-Way Standards and Glossary Mapping • Tool: Model Internal Audit Charter • Webinar: What the New Standards Mean to Quality Assessments (Feb 13) • Updated Learning Library (2 new courses) • Publication: Insights to Quality • <i>Internal Auditor</i> magazine special issue. iia.mydigitalpublication.com/february-2024 	<ul style="list-style-type: none"> • Tools: for CAE communication with board and senior management about Domain III. • Tool: Key Standards Changes Summary • GAM Conference pre-conference workshop (Mar 10) & multiple sessions • Global Internal Audit Standards digitally enhanced e-book (Mar) • 5 updated Practice Guides 	<ul style="list-style-type: none"> • Translated Standards (Q2) • Quality assessment readiness tool (Q2) • Topical Requirement on Cybersecurity – issued for public comment (Apr), followed by release (Q3) • Global Internal Audit Standards (The Redbook) hardcover book (Q3, June) • Quality Assessment Manual (Q3) • International Conference Workshop (Jul 14) • New GTAG & Practice Guide 	<ul style="list-style-type: none"> • New Standards become effective Jan 9, 2025 • CIA® exam: no changes before May 2025 • Updated Internal Audit Practitioner exam: no changes before effective date. • New Topical Requirements – issued for public comment, followed by release



Red Book – Purpose of Internal Audit



IA strengthens the organization's ability to create, protect and sustain value by providing the board and management with independent, risk-based, and objective assurance, advise, insight and foresight.

Red Book – Mandatory vs. Recommended



Mandatory – Global Internal Audit Standards (inside circle)

Recommended – Global Guidance (outside circle)

Core Principles - Domain II

Ethics and Professionalism

1. Demonstrate Integrity
2. Maintain Objectivity
3. Demonstrate Competency
4. Exercise Due Professional Care
5. Maintain Confidentiality

Communications effectively.

Risk-based assurance.

Insight and foresight.

Promotes organizational
improvement.



Core Principles – Domain III

Governing the Internal Audit Function

6. Authorized by the Board
7. Positioned Independently
8. Overseen by the Board

Quality

Communications effectively.

Risk-based assurance.

Insight and foresight.

Promotes organizational
improvement.



Core Principles – Domain IV

Managing the Internal Audit Function

9. Plan Strategically
10. Manage Resources
11. Communicate Effectively
12. Enhance Quality

Quality

Communications effectively.

Risk-based assurance.

Insight and foresight.

Promotes organizational
improvement.



Core Principles – Domain V

Performing Internal Audit Services

- 13. Plan Engagements Effectively
- 14. Conduct Engagement Work
- 15. Communicate Engagement Results

Quality

Communications effectively.

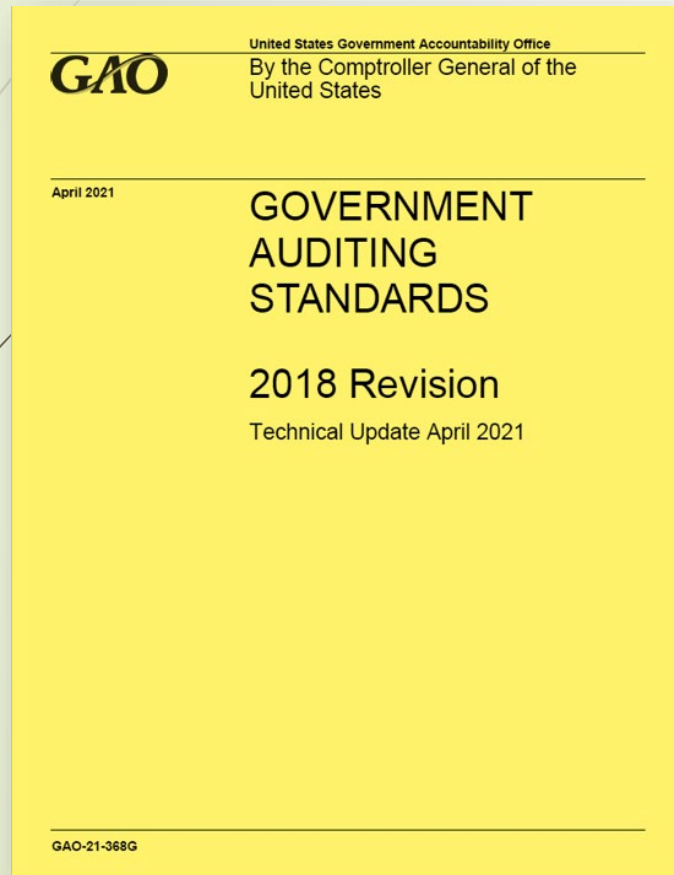
Risk-based assurance.

Insight and foresight.

Promotes organizational
improvement.



Generally Accepted Government Auditing Standards (Yellow Book)



The Yellow Book is issued by the United States Government Accountability Office

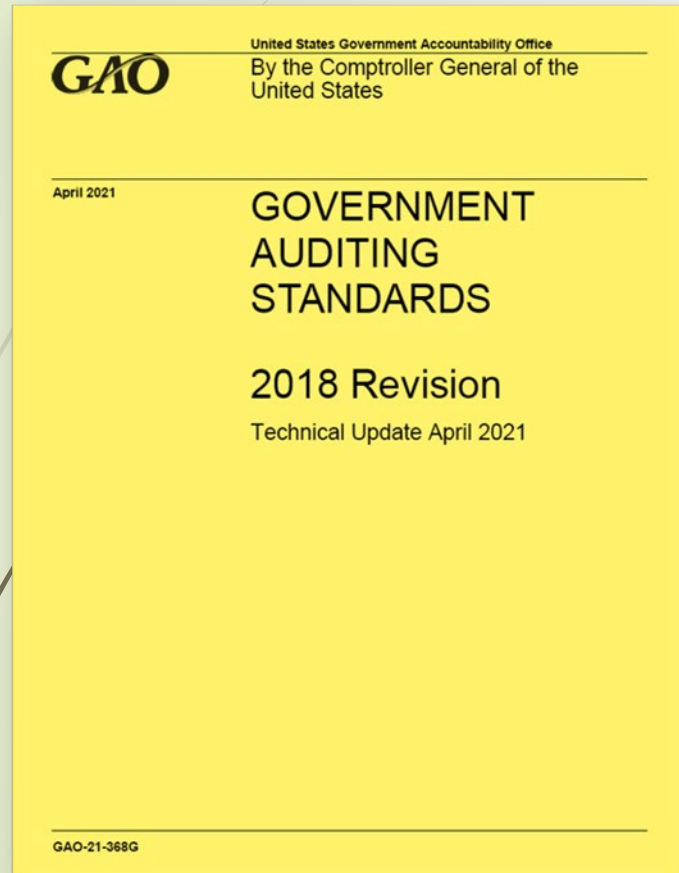
It was updated on February 1, 2024, and becomes effective on December 15, 2025.





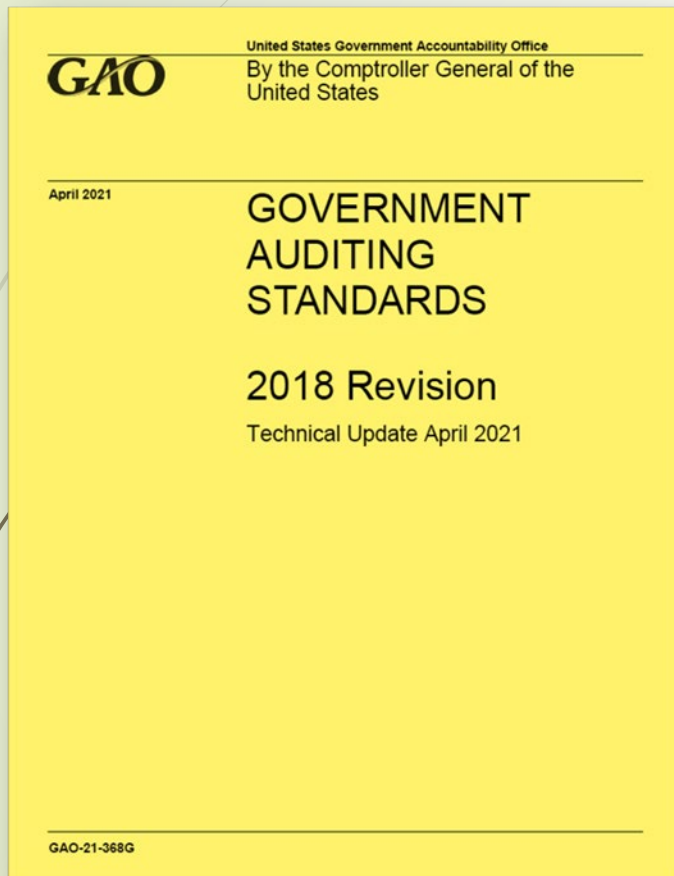
Yellow Book – Highly Recommended Reading for Government Auditors

Yellow Book



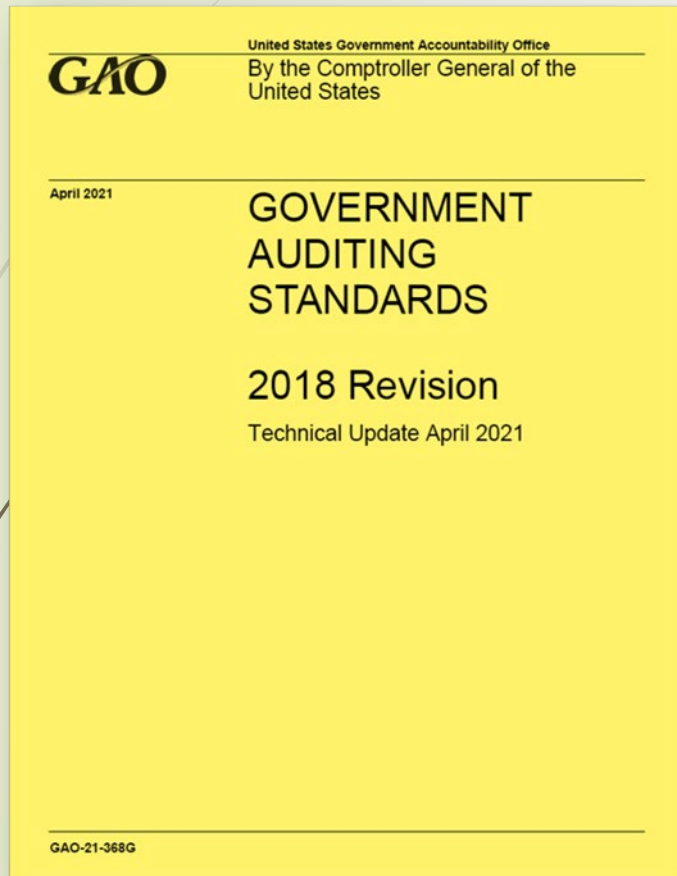
- Provides standards and guidance for auditors and audit organizations.
 - Audit Reports.
 - Professional Qualifications for Auditors.
 - Audit Organization Quality Control.
- Auditors of federal, state and local government programs, use these standards to perform their audits and produce their reports.

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) .

Yellow Book



- 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 - Foundation and Principles for the Use and Application of Government Auditing Standards


► 1.07 -

- *Engagements conducted in accordance with GAGAS provide information used for oversight, accountability, transparency and improvements of government programs and operations.*
- GAGAS contains requirements and guidance to assist auditors in objectively obtaining and evaluating sufficient and appropriate evidence and reporting the results.
- When auditors conduct their work in this manner and comply with GAGAS in reporting the results, their work can lead to improved government management, better decision making and oversight, effective and efficient operations, accountability and transparency for resources and results.



Yellow Book - General Requirements for Complying with Government Auditing Standards

- ▶ **2.02** - GAGAS uses two categories of requirements;
 - **Unconditional requirements:** GAGAS uses “*must*” to indicate an unconditional requirement;
 - **Presumptively mandatory requirements:** GAGAS uses “*should*” to indicate a presumptively mandatory requirement.
- ▶ **2.03** and **2.04** - In rare circumstances.
 - Auditors and audit organizations may determine it necessary to depart from a relevant presumptively mandatory requirement.
 - Perform alternative procedures to achieve the intent of that requirement. (2.03)
 - Document their justification for the departure (2.04)
 - How the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement. (2.04)



Yellow Book - General Requirements for Complying with Government Auditing Standards

- **2.05** - Auditors should understand the entire text of applicable chapters of GAGAS.
- Application guidance, found in sections following the General Requirements.
- Any amendments that GAO issued, to understand the intent of the requirements and to apply the requirements properly.
- **2.06** - Auditors should consider applicable GAO-issued GAGAS interpretive guidance in conducting and reporting on GAGAS engagements.

Yellow Book - Ethics

3.04 - Performing audit work in accordance with ethical principles

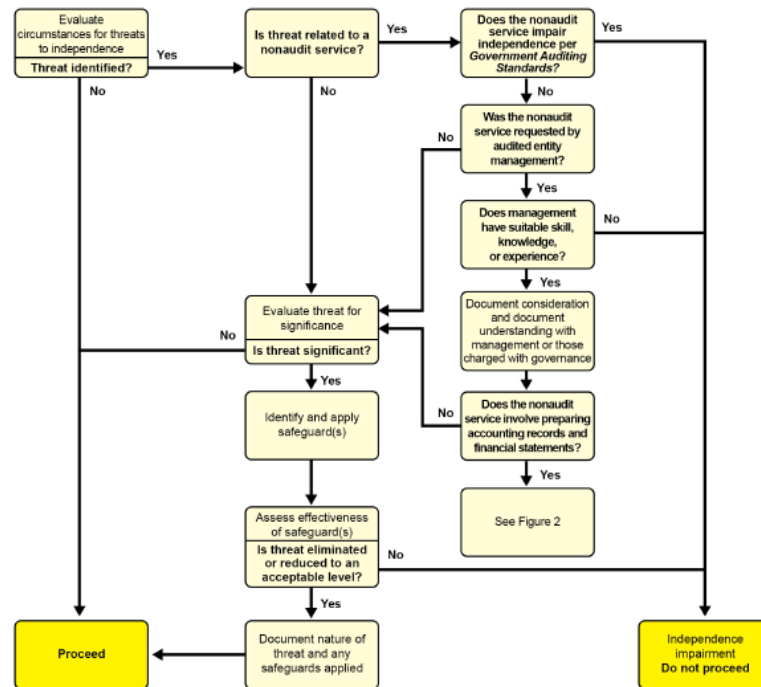
- ▶ Personal and organizational responsibility.
- ▶ Ethical principles apply in preserving auditor independence.
- ▶ Taking on only work that the audit organization is competent to perform.
- ▶ Performing high-quality work.
- ▶ Following the applicable standards cited in the audit report.
- ▶ Integrity and objectivity are maintained when auditors perform their work and make decisions that are consistent with the broader interest of those relying on the audit report, including the public.

3.06 - The ethical principles that guide the work of auditors who conduct engagements in accordance with GAGAS are.

- ▶ The public interest.
- ▶ Integrity.
- ▶ Objectivity.
- ▶ Proper use of government information, resources, and positions.
- ▶ Professional behavior.

Yellow Book - Independence

Figure 1: Generally Accepted Government Auditing Standards Conceptual Framework for Independence



Source: GAO. | GAO-21-368G

Requirements: General

➤ **3.18** - In all matters relating to the GAGAS engagement, **auditors and audit organizations.**

- must be independent from an audited entity.

➤ **3.19** - Auditors and audit organizations should;

- **Avoid situations** that could lead reasonable and informed third parties to conclude that the auditors and audit organizations are not independent,
- Thus, are not capable of exercising objective and impartial judgment on all issues associated with conducting the engagement and reporting on the work.



Yellow Book - Competence and Continuing Professional Education

- **4.05** Competence is the knowledge, skills, and abilities, obtained from education and experience, necessary to conduct the GAGAS engagement. Competence enables auditors to make sound professional judgments. Competence includes possessing the technical knowledge and skills necessary for the assigned role and the type of work being done. This includes possessing specific knowledge about GAGAS.
- **4.06** Competence is derived from a combination of education and experience. Education is a structured and systematic process aimed at developing knowledge, skills, and other abilities; it is a process that is typically but not exclusively conducted in academic or learning

Continuing Professional Education

Requirements: General

4.16 Auditors who plan, direct, perform engagement procedures for, or report on an engagement conducted in accordance with GAGAS should develop and maintain their professional competence by completing at least 80 hours of CPE in every 2-year period as follows.

CPE hours	Subject matter categories of CPE
24 hours	Subject matter directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates
56 hours	Subject matter that directly enhance auditors' professional expertise to conduct engagements

- **4.18** - The audit organization should maintain documentation of each auditor's CPE.



Yellow Book: Quality Management

➤ **5.03** In GAGAS, a system of quality management consists of the following components:

- Governance and Leadership;
- Independence,
- Legal, and Ethical Requirements;
- Acceptance, Initiation, and Continuance of Engagements;
- Engagement Performance;
- Resources;
- Information and Communication



Yellow Book: Quality Management

- ▶ **5.05** An audit organization conducting engagements in accordance with GAGAS must design, implement, and operate a system of quality management that provides it with reasonable assurance that the audit organization and its personnel:
 - a. Fulfill their responsibilities in accordance with professional standards and applicable laws and regulations;
 - b. Perform and report on engagements in accordance with such standards and requirements.

- ▶ **5.10** Quality management is not a separate function of the audit organization; **it is the integration of a culture that demonstrates a commitment to quality** with the audit organization's strategy, operational activities, and business processes. Designing the system of quality management and the audit organization's operational activities and business processes in an integrated manner promotes a harmonious approach to managing the audit organization and enhances the effectiveness of quality management.



Yellow Book – Peer Review

- ▶ **5.155** - Each audit organization conducting engagements in accordance with GAGAS.
 - Must obtain an external peer review conducted by reviewers independent of the audit organization being reviewed.
 - The peer review should be sufficient in scope to provide a reasonable basis for determining whether, for the period under review.
 - The reviewed audit organization's system of quality management was suitably designed and
 - The organization is complying with its system of quality management so that it has reasonable assurance that it is fulfilling its responsibilities in accordance with professional standards and performing and reporting in conformity with such standards in all material respects..



Yellow Book – Peer Review

► 5.179 -

- An audit organization not already subject to a peer review requirement should obtain an external peer review at least once every 3 years.
- The audit organization should obtain its first peer review covering a review period ending no later than 3 years from the date an audit organization begins its first engagement in accordance with GAGAS. [GAGAS](#).



PEER REVIEW

Yellow Book – Financial Audit Standards

Standards for conducting financial audits.

- **Requirement** - Compliance with Standards **6.02** - GAGAS establishes requirements for financial audits in addition to the requirements in the American Institute of Certified Public Accountants' and Statements on Auditing Standards. Auditors should comply with these additional requirements, along with the AICPA requirements for financial audits when citing GAGAS in financial audit reports.

Standards for reporting on financial audits.

- **6.36** - When auditors comply with all applicable GAGAS requirements, they should include a statement in the audit report that they **conducted the audit in accordance with GAGAS**.

Standards for Attestation Engagements and reviews of financial statements.

- **7.02** - An attestation engagement can provide one of three levels of service as defined by the AICPA: an **examination** engagement, a **review** engagement, or an **agreed-upon procedures** engagement.



Yellow Book - Fieldwork Standards for Performance Audits

- ▶ **8.02** - The fieldwork requirements for performance audits relate to **planning** the audit; **conducting** the engagement; **supervising** staff; obtaining **sufficient, appropriate evidence**; and preparing audit documentation. The concepts of evidence, significance and audit risk form a framework for applying these requirements and are included throughout the discussion of performance audits.
- ▶ **8.03** - Auditors must **adequately plan** the work necessary to address the audit objectives. Auditors must document the audit plan.
- ▶ **8.04** - Auditors must **plan the audit to reduce audit risk** to an acceptably low level.
- ▶ **8.05** - In planning the audit, auditors should assess significance and audit risk. Auditors should apply these assessments to establish the scope and methodology for addressing the audit objectives. **Planning is a continuous process throughout the audit.**
- ▶ **8.06** - Auditors should design the methodology to obtain **sufficient, appropriate evidence** that provides a **reasonable basis for findings and conclusions** based on the audit objectives and to reduce audit risk to an acceptably low level.
- ▶ **8.07** - Auditors **should identify and use suitable criteria based** on the audit objectives.

Yellow Book- Understanding the Program

- ▶ **8.36** - 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;
 - ▶ visibility, sensitivity, and relevant risks associated with the program under audit;
 - ▶ age of the program or changes in its condition;
 - ▶ 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;
 - ▶ the program's strategic plan and objectives; and
 - ▶ external factors.



Yellow Book- Significance of Internal Control

- **8.39** - Auditors should determine and document whether internal control is **significant to the audit objectives**.⁶⁹
- **8.40** - If it is determined that internal control is significant to the audit objectives, auditors should **obtain an understanding of such internal control**.





Yellow Book- Deficiencies in Internal Control

- ▶ **8.54** - Auditors should evaluate and document the significance of identified **internal control deficiencies** within the context of the audit objectives.

Yellow Book- Information Systems Internal Control

- **8.59** - The effectiveness of significant internal controls frequently depends on the **effectiveness of information systems 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**.



Yellow Book - Fraud

- ▶ **8.71** - Auditors should:
 - Assess the risk of fraud 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 increase the risk of fraud.
 - Auditors should **gather and assess information** to identify the risk of fraud that is significant within the scope of the audit objectives or that could affect the findings and conclusions.
- ▶ **8.72** - Assessing the risk of fraud is an **ongoing process throughout the audit**.
 - When information comes to the auditor's attention indicating that **fraud**, significant within the context of the audit objectives, **may have occurred**,
 - Auditors should **extend the audit steps and procedures, as necessary**, to determine whether fraud has likely occurred and, if so, determine its effect on the audit findings.





Yellow Book - Fraud

8.75 - In some circumstances, conditions such as the following could indicate a heightened risk of fraud.

- ▶ Economic, programmatic, or entity operating **conditions that threaten the entity's financial stability, viability, or budget.**
- ▶ The **nature of the entity's operations** provide opportunities to engage in fraud.
- ▶ **Management's monitoring** of compliance with laws, regulations, and policies **is inadequate.**
- ▶ The **organizational structure** is unstable or unnecessarily complex.
- ▶ Management communication or **support for ethical standards is lacking.**
- ▶ Management is **willing to accept unusually high levels of risk** in making significant decisions.

Yellow Book - Fraud

8.75 - In some circumstances, conditions such as the following could indicate a heightened risk of fraud.

- ▶ The entity has a **history of impropriety**, such as previous issues with fraud, questionable practices, or past audits or investigations with findings of questionable or criminal activity.
- ▶ **Operating policies and procedures have not been developed** or are outdated.
- ▶ **Key documentation** is lacking or **does not exist**.
- ▶ **Asset accountability** or safeguarding procedures **are lacking**.
- ▶ A **history of improper payments**.
- ▶ Evidence **of false or misleading information** and evidence of **unusual patterns and trends** in contracting, procurement, acquisition, and other activities of the entity or program.



Yellow Book – Supervision

- **8.87** - Auditors must properly supervise audit staff.
- **8.88** - Audit supervision involves **providing sufficient guidance** and direction to auditors assigned to the audit to address the audit objectives and follow applicable requirements, while staying informed about significant problems encountered, **reviewing the work performed** and **providing effective on-the-job training**.
- **8.89** - The nature and extent of the auditors' supervision and the review of audit work **may vary** depending on several factors, such as the **size of the audit organization**, the **significance of the work** and the **experience of the auditors**.

Yellow Book - Evidence



- ▶ **8.90** - Auditors must obtain **sufficient, appropriate evidence** to provide a reasonable basis for addressing the audit objectives and **supporting their findings and conclusions**.
- ▶ **8.91** - In assessing the appropriateness of evidence, auditors should assess whether the evidence **is relevant, valid, and reliable**.
- ▶ **8.92** - 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 to the extent that would persuade a knowledgeable person that the findings are reasonable.
- ▶ **8.93** - When auditors use **information provided by officials of the audited entity** as part of their evidence, they should determine what the officials of the audited entity or other auditors **did to obtain assurance over the reliability of the information**.
- ▶ **8.94** - Auditors should evaluate the objectivity, credibility, and reliability of **testimonial evidence**.

Yellow Book - Findings



- ▶ **8.116** - As part of a performance audit, when auditors identify findings, they should plan and perform procedures to develop the **criteria, condition, cause and effect of the findings** to the extent that these elements are relevant and necessary to achieve the audit objectives.
- ▶ **8.117** - Auditors should consider **internal control deficiencies** in their **evaluation of identified findings** when developing **the cause element** of the identified findings when internal control is significant to the audit objectives.

Yellow Book – Audit Documentation

- **8.132** Auditors must prepare **audit documentation** related to planning, conducting, and reporting for each audit.
 - Auditors should prepare audit documentation in **sufficient detail** to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed; the evidence obtained; and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.
- **8.133** Auditors should prepare audit documentation that **contains evidence** that supports the findings, conclusions, and recommendations before they issue their report.
- **8.134** 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.
 - The quantity, type, and content of audit documentation are a matter of the auditors' professional judgment.




Yellow Book Audit Documentation

- ▶ **8.135** Auditors should document the following:
 - The **objectives, scope, and methodology** of the audit.
 - The **work performed and evidence obtained** to support significant judgments and conclusions, as well as expectations in analytical procedures, including descriptions of transactions and records examined (for example, by listing file numbers, case numbers, or other means of identifying specific documents examined, though copies of documents examined or detailed listings of information from those documents are not required); and
 - **Supervisory review**, before the audit report is issued, of the evidence that supports the findings, conclusions, and recommendations contained in the audit report.

- ▶ **8.136** When auditors do not comply with applicable GAGAS requirements because of law, regulation, scope limitations, restrictions on access to records, or other issues affecting the audit, the auditors should **document the departure from the GAGAS requirements** and the impact on the audit and on the auditors' conclusions.

- ▶



Yellow Book – Reporting Standards for Performance Audits

- Reporting Auditors' Compliance with GAGAS (9.03-9.05)
- Report Format (9.06-9.07)
- Report Content (9.10-9.14)
- Reporting Findings Conclusions and Recommendations (9.18-9.23)
- Reporting on Internal Control (9.29-9.31)
- Reporting on Noncompliance with Laws, Regulations, Contracts and Grant Agreements (9.35-9.36)
- Reporting on Instances of Fraud (9.40-9.41)
- Reporting Findings Directly to Parties outside the Audited Entity (9.45-9.49)
- Obtaining the Views of Responsible Officials (9.50-9.53)
- Report Distribution (9.56-9.59)
- Reporting Confidential or Sensitive Information (9.61-9.63)
- Discovery of Insufficient Evidence after Report Release (9.68)

Yellow Book – Reporting Auditor's Compliance with GAGAS

- ▶ **9.03** - 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 conducted the audit in accordance with GAGAS:
 - *“We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.”*
- ▶ **9.04** - Audit organizations that meet the independence requirements for internal audit organizations, but not those for external audit organizations, should include in the GAGAS compliance statement, where applicable, a statement that they are **independent per the GAGAS requirements for internal auditors**.
- ▶ **9.05** - 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 paragraph 9.03, modified to indicate the requirements that were not followed, or (2) language indicating that the auditors did not follow GAGAS.

Yellow Book - Report Format and Content

- ▶ **9.06** - Auditors should issue audit reports **communicating the results** of each completed performance audit.
- ▶ **9.07** - Auditors should issue the audit report in a form that is appropriate for its intended use, either in **writing or in some other retrievable form**.
- ▶ **9.10** - 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 summary of the views of responsible officials.
 4. If applicable, the nature of any confidential or sensitive information omitted.
- ▶ **9.11** - Auditors should communicate audit objectives in the audit report in **a clear, specific, neutral, and unbiased manner** that includes relevant assumptions. In order to avoid potential misunderstanding, when audit objectives are limited but users could infer broader objectives, auditors should state in the audit report that certain issues were outside the scope of the audit.

Yellow Book - Report Format and Content

- ▶ **9.12** - Auditors should **describe the scope of the work performed and any limitations**, including issues that would be relevant to likely users, so that report users can 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, or excessive delays in, access to certain records or individuals.
- ▶ **9.13** - In describing the work performed 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 entities, 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.
- ▶ **9.14** - In reporting audit methodology, auditors should explain the following:
 - How the completed audit work **supports the audit objectives**.
 - Include **the evidence-gathering and evidence-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 the results of sample testing significantly support 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**.

Yellow Book - Reporting Findings, Conclusions and Recommendations

9.18 - In the audit report, auditors should present **sufficient, appropriate evidence** to support the findings and conclusions in relation to the audit objectives. Auditors should provide **recommendations for corrective action if findings are significant** within the context of the audit objectives.

9.19 - Auditors should **report conclusions** based on the audit objectives and the audit findings.

9.20 - Auditors should describe in their report **limitations or uncertainties with the reliability or validity of evidence** if

- the evidence is significant to the findings and conclusions within the context of the audit objectives and 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.

Yellow Book - Reporting Findings, Conclusions and Recommendations

- **9.21** - Auditors should place their findings in perspective.
 - **Describing the nature and extent** of the **issues** being reported and the extent of **the work performed** that resulted in the findings.
 - Giving the reader a **basis for judging the prevalence and consequences of these findings**, auditors should, as appropriate, **relate the instances identified to the population** or the number of cases examined and quantify the results in terms of dollar value or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately.
- **9.22** - When reporting on the results of their work, auditors should **disclose significant facts** relevant to the objectives of their work and known to them **that if not disclosed could mislead knowledgeable users**, misrepresent the results or conceal significant improper or illegal practices.
- **9.23** - When feasible, auditors should **recommend actions to correct deficiencies** and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations **that flow logically from the findings and conclusions**, are directed at **resolving the cause** of identified deficiencies and findings, and clearly state the actions recommended.

Yellow Book - Reporting on Internal Control

9.29 - When internal control is significant within the context of the audit objectives, auditors should include in the audit report **the scope of their work on internal control**. Any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed should be included as well.

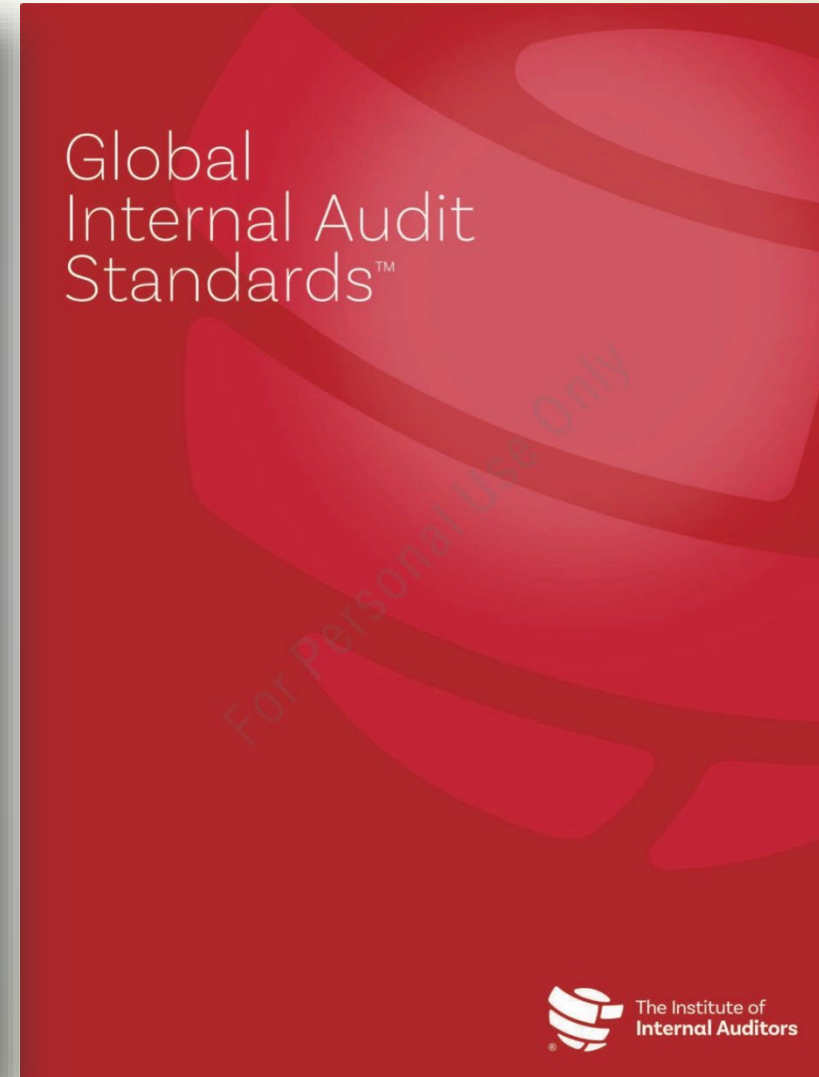
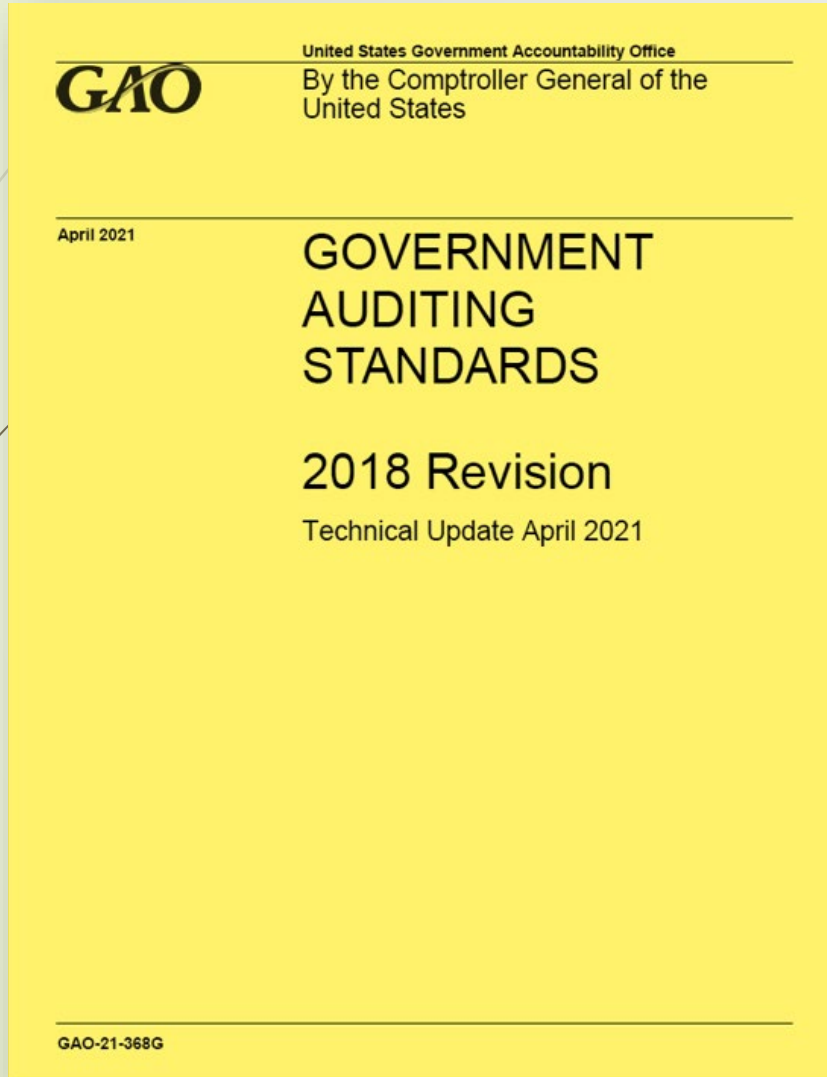
9.30 - When reporting on the scope of their work on internal control, auditors should identify the scope of internal control assessed to the extent necessary for report users to reasonably interpret the findings, conclusions and recommendations in the audit report.

9.31 - When auditors detect **deficiencies in internal control that are not significant to the objectives** of the audit, but warrant the attention of those charged with governance, they should include those deficiencies either in the report or **communicate those deficiencies in writing** to audited entity officials. If the written communication is separate from the audit report, auditors should refer to that written communication in the audit report.

Yellow Book - Reporting on Fraud

- **9.40** - Auditors should **report a matter as a finding** when they conclude, based on sufficient, appropriate evidence, that **fraud** either has occurred or is likely to have occurred that is **significant to the audit objectives**.
- **9.41**- Auditors should **communicate findings in writing to audited entity officials** when the auditors detect instances of **fraud** that are **not significant within the context of the audit objectives** but warrant the attention of those charged with governance.

Yellow Book and Red Book Comparison

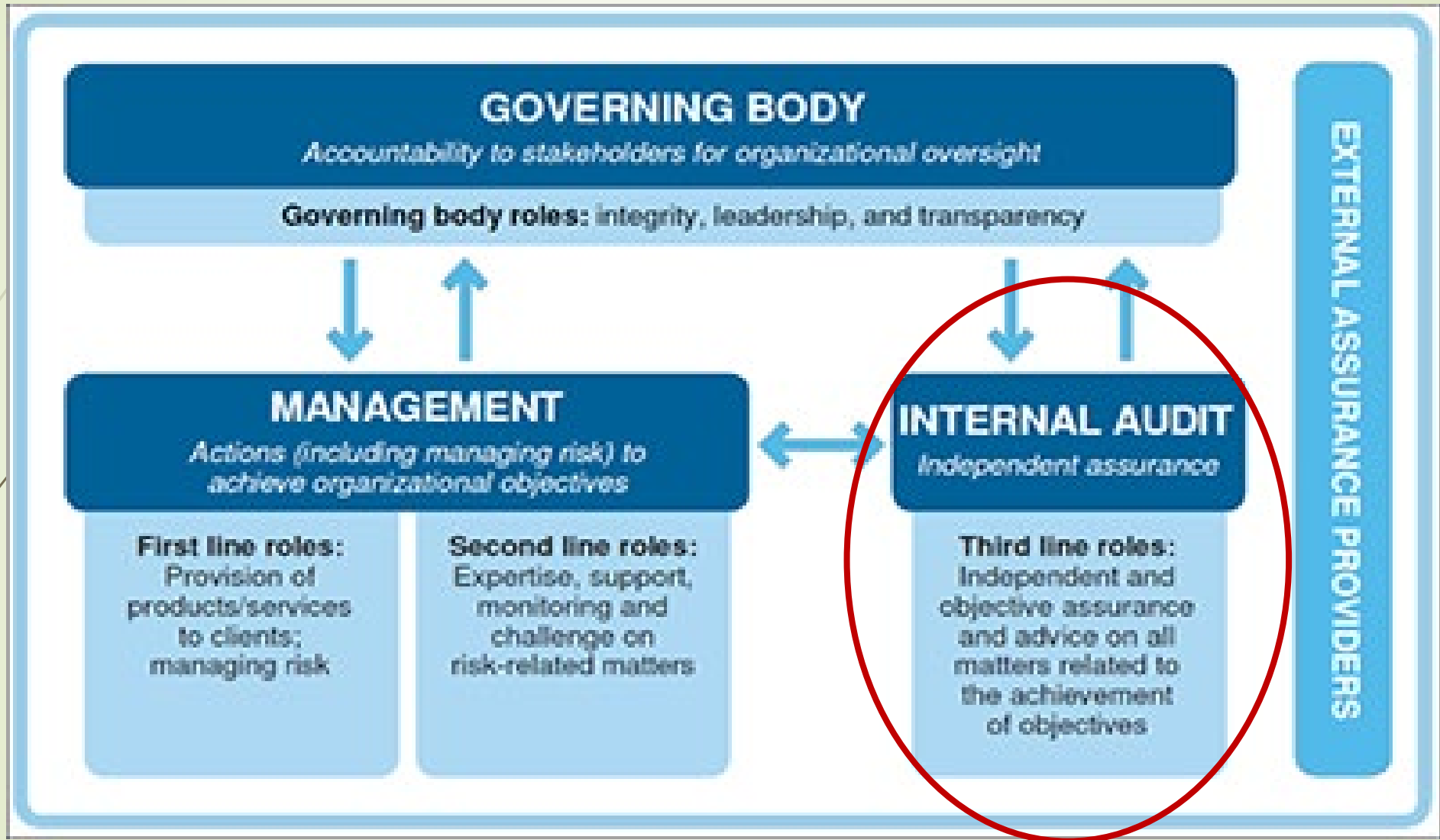


Yellow Book vs. Red Book

YELLOW BOOK	RED BOOK
AIG Recommended Standard	AIG Recommended Standard
Used both in the United States and in other countries voluntarily	Global Standards
Three types of engagements/audits: financial, attestation, and performance	Two types of engagements/services: assurance and advisory
Requires completion of 80 hrs. of CPE in every 2-year period.	Requires enhancement of knowledge, skills and other competencies through continuing professional development. New policy in September 2023
Non-financial program audits include processes, projects, studies, policies, operations, activities, entities, and functions.	Assurance services audits apply to the entity, operation, function, process, system, or other subject matter.

Internal Vs. External Audit

	Internal Audit	External Audit
Placement	Internal - Administratively part of organization (employees)	External - Independent body outside of the organization
Appointment	Chief Audit Executive Hired by Board, Audit Committee, or senior executive (Administratively reporting to the organization's management structure to facilitate day-to-day operations)	Appointed by Organization stakeholders (Typically through the Audit Committee)
Responsibility	Operations, information technology, strategic initiatives, fraud investigations, process and control optimization, compliance, etc.	Financial statements, financial accounts, financial risks, etc.
Objectives	Engagements directed by annual, risk-based audit plan	Required – Statute, regulation, etc.



Source: IIA, Lake Mary, Fla. (July 20, 2020)



Summary

Identify

Identify key requirements of the International Professional Practices Framework and Generally Accepted Government Auditing Standards.

Understand

Understand the difference between internal and external auditing.

Understand

Understand the Three Lines of Defense Model.

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
- GAO - www.gao.gov/yellowbook



Questions? Comments?

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