Comparison of IIA Standards and GAGAS

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Presentation Outline

- Discuss some background Information on each organizational body and standards setting process
- Provide a general comparison of the standards
- Identify noted differences between the standards
- Suggest some recommendations to bridge the gap between the standards

Background information and standard setting processes

GAGAS Timeline

- Established by the US Accounting and Budgeting Act of 1921
  - Positioned with the legislative branch and reports to the US Congress
- 1969 – a group of state auditors met and requested help in compiling standards to improve state and federal auditing
- 1972 – first edition of the *Standards of Audit of Governmental Organizations, Programs, Activities, & Functions*
- Since 1972- it has underwent **SIX** major revisions including the December 2011

IPPF Timeline

- 1941- IIA was incorporated and evolved from the growth of internal auditing
- 1947 – Issued a statement of responsibilities
- 1968 – The Code of Ethics was approved
- 1978 – IIA first issued Standards for the Professional Practice of Internal Auditing
- 1998 – IIA's Governing Board appointed a Guidance Task Force
- 1999 – A New Code of Ethics and internal auditing was redefined
- 2009 – International Professional Practices Framework (IPPF) went to effect

Standard Setting Process

GAO

- Issue exposure draft to the public
- Comptroller General appoints an Advisory Council to provide advice
- The Council consists of audit and accounting professionals at the federal, state, and local levels as well as users, preparers and academics
- Comptroller General has the responsibility for the issuance of new standards

IIA

- Issue exposure draft to the public
- International Internal Audit Standards Board (IIASB) has the sole responsibility to revise standards
- IIASB consists of members internationally from both the public and private sectors
- IIASB coordinates with Professional Issue Committee (PIC) and are Public Sector Committee (PSC)

Scope and Domain

GAGAS

- Must be followed by all professional auditors conducting financial audits of government and non-profit organizations receiving federal funds subject to the audit requirements of US OMB Circular A-133.
- Required to be used by federal inspectors general and state and local governments and some IA and CPA firms in the conduct of single audits and other government audits

IIA Standards

- Internal Audit Departments throughout the world should use IIA Standards

Standard Overview

GAO's Government Auditing Standards

- Foundation and Ethical Principles
- Standards for Use and Application of GAGAS
  - General Standards
  - Fieldwork Standards for Performance Audits
  - Reporting Standards for Performance Audits

IIA's IPPF

- Definition of IA and Code of Ethics
- International Standards for the Professional Practices of IA
  - Attributes Standards
  - Performance Standards
- Practices Advisories
- Position Papers
- Practice Guides

Standards differences and suggested recommendations

Concern 1 - “CONSULTING”

- The **IIA Standards** uses “consulting” within its definition of internal auditing; however, **GAGAS** categorizes any service that is not an audit or attestation engagement as a “nonaudit service”.
  - The IIA defines *consulting services* as “advisory and related client service activities...without the internal auditor assuming management responsibility.”
  - In paragraphs 2.12 through 2.13 and 3.33 through 3.58 of GAGAS, professional services, other than audits and attestation engagements, are sometimes referred to as “nonaudit services”.

Concern 1 – Suggested Recommendation

- Audit organizations that follow both standards should conduct their audit work in accordance with both sets of audit standards.
  - Auditors should comply with GAGAS conceptual framework as it pertains to non-audit services as described in paragraphs 3.02 through 3.26 and 3.33 through 3.58.
  - Auditors should not assume management responsibilities as provided for in The IIA definition of consulting services.
  - In order words, does the non-audit service threaten your independence?

Concern 2 – Independence

- **IIA Standard 1130.A1** states that an internal auditor's "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." **IIA Standard 1130.C1** states, "Internal auditors may provide consulting services relating to operations for which they had previous responsibilities."
- **GAGAS** specifies that auditors must be independent and discusses independence in terms of "independence of mind" and "independence in appearance." Auditors should apply a conceptual framework to identify threats to independence, evaluate the significance of the threats identified, both individually and in the aggregate, and apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level.

Concern 2 – Suggested Recommendation

- When evaluating "independence", audit organizations should review the discussion of the conceptual framework and the related threats and safeguards for independence, especially for **GAGAS paragraphs 3.02 through 3.26**, to avoid the appearance of a lack of independence.
  - Audit assignments should be evaluated to ensure independence in mind and in appearance are maintained.
  - 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.

Concern 3 – Non Audit Services

- **IIA 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." **Practice Advisory 1130.A2-1** further "states that if auditors have this (nonaudit function) responsibility, then they are not functioning as internal auditors. This independence violation should be reported to the Board.
- **In paragraph 3.34,** GAGAS states that when performing nonaudit services, "the auditor should determine whether providing such a service would create a threat to independence ….. with respect to any GAGAS audit it performs." **In paragraph 3.44,** GAGAS states that if the auditor is required to perform that nonaudit service and the auditor cannot implement safeguards to adequately mitigate the threat, the auditor should disclose the nature of the threat and modify the GAGAS compliance statement.

Concern 3 – Suggested Recommendation

- The performance of certain types of nonaudit services by the audit organization or specific staff may impair independence. Audit organizations should also carefully review the discussion of nonaudit services as stated in **GAGAS paragraphs 3.33 through 3.58**. Once non-compliance is noted and can not remediated, the following should be performed:
  - The lack of independence should be documented.
  - It should be communicated to the Board.
  - The GAGAS compliance statement needs to be modified.

Concern 4 – Ethics Program

- **IIA Standard 2110.A1** provides, "the internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities." The **IIA Standards** requires a periodic evaluation of the entire organization's ethics-related objectives, programs, and activities, not just the ethics of the audit organization.
- GAGAS incorporates the ethical principles of the audit organization and **paragraph 1.01 of GAGAS** discusses the ethical responsibility for government officials and establishes an expectation that they would carry out public functions ethically.

Concern 4 – Suggested Recommendation

- To comply with the additional requirements of **The IIA Standards**, a periodic evaluation should be made of the organization's ethics program, and that evaluation should be documented through a note or memos to the file or through an audit on the subject matter.

Concern 5 – Risk Assessment in Planning

- **IIA Standard 2010** states that the CAE "must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals." **IIA 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. The input of senior management and the board must be considered in this process."
- GAGAS does not contain requirements pertaining to the overall audit planning for the audit organization, but focuses on planning associated with individual audits.

Concern 5 – Suggested Recommendation

- To comply with the additional requirements of **The IIA Standards**, the audit organization should complete a plan of engagements at least annually that is based on a documented risk assessment.

Concern 6 – External QAR

- **IIA Standard 1312** states "external assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization." **IIA Standards 1320** requires the Chief Audit Executive (CAE) to communicate the results to senior management and the Board.
- **GAGAS paragraph 3.96** 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. In addition, **GAGAS paragraph 3.105** requires that a copy of the report is given to those charged with governance.

Concern 6 – Suggested Recommendation

- Audit organizations conducting audits under **The IIA Standards** and **GAGAS** should have a peer review or an external quality assurance review conducted every **three years** designed to determine conformance with both The IIA Standards and GAGAS. This approach would likely be more efficient than having a GAGAS review every three years and an IIA Standards review every five years.

Concern 7 – Quality Assurance Systems

- **IIA Standard 1300** states that the Chief Audit Executive (CAE) "must develop and maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit activity." The QAIP should include both internal and external assessments. For internal assessments, the program 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." The CAE to "communicate the results of the QAIP to senior management and the board."

Concern 7 – Quality Assurance Systems – cont'd

- **GAGAS paragraph 3.82** states that "Each audit organization performing audits in accordance with GAGAS must establish and maintain 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." As part of this system of quality control, the audit organizations need to (1) document and communicate their quality control policies and procedures and (2) analyze and summarize the results of its monitoring procedures at least annually.

Concern 7 – Suggested Recommendation

- Audit organizations should follow **GAGAS** and its **more detailed** requirements for the audit organization's quality assurance system and the recommendations in **IIA Practice Advisory 1311-1.**
  - Quality control policies and procedures should be documented and monitored for compliance on an annually basis.

Concern 8 – Reporting Compliance

- **GAGAS paragraph 7.30** 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.

Concern 8 – Suggested Recommendation

- When reporting, use language of **GAGAS** and also make reference to **The IIA Standards** 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.

Concern 9 – Referencing the Standards

- **In IIA Standard 1321**, the CAE may state that the internal audit activity conforms with the *Standards* only if the results of the Quality Assurance and Improvement Program (QAIP) support this statement.
- **In paragraphs 2.24 and 7.30 of GAGAS**, its states that auditors should include a GAGAS compliance statement in the auditor's report.

Concern 9 – Suggested Recommendation

- Until the audit activity has completed assessments that demonstrate the audit activity is in conformance with **The IIA Standards**, auditors should **not** report activities are conducted in accordance with the Standards but should make the compliance statement **as allowed under GAGAS**, if applicable.
  - If the audit activity complies with both sets of standards, the GAGAS compliance statement may incorporate a reference to compliance with the IIA Standards.

Concern 10 – Fraud

- Both the **IIA Standards** and **GAGAS** address various aspects of fraud as it relates to required knowledge, planning, additional procedures, and reporting as follows.
  - *Knowledge* - Both standards require auditors to possess sufficient knowledge to address audit objectives and perform each engagement in compliance with auditing standards.
  - *Planning* — Both standards require assessment of potential fraud risk during engagement planning.
  - *Additional Procedures* —**GAGAS paragraph 6.30** requires audit team members to discuss among the team fraud risks, including factors that could allow individuals to commit fraud. **In paragraph 6.31, GAGAS** states that auditors should design additional procedures when they identify factors or risks related to fraud that has occurred or is likely to have occurred, that is significant within the context of the audit objectives.

Concern 10 – Fraud – cont'd

- Both the **IIA Standards** and **GAGAS** address various aspects of fraud as it relates to required knowledge, planning, additional procedures, and reporting as follows.
  - *Reporting* — **IIA Standard 2060** states that fraud should reported to senior management and the Board. **GAGAS** requires the auditor to report fraud that either has occurred or is likely to have occurred that is significant within the context of the audit objectives (**paragraph 7.21**) and the auditor must communicate in writing to audited entity officials fraud that is not significant within the context of the audit objectives, but warrants the attention of those charged with governance (**paragraph 7.22**).

Concern 10 – Suggested Recommendation

- Auditors should follow the more detailed GAGAS requirements . Both the **IIA Standards** and **GAGAS** provide guidance in the area of fraud. However, GAGAS provides **more specific** guidance such as:
  - Conducting a fraud brainstorming session for each audit, and
  - Performing additional audit procedures should factors or risks related to fraud be identified.

Concern 11 – Follow-up on Previous Audit

- In **IIA Standard 2500**, the CAE "must establish and maintain a system to monitor the disposition of results communicated to management." **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 action."
- GAGAS 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."

Concern 11 – Suggested Recommendation

- Audit organizations should establish a follow-up process that meets the requirement of the **more detailed IIA Standards**, while not assuming management's responsibilities.
  - The **IIA Standards** requires follow-up activities on each audit to ensure accountability, whereas GAGAS requires follow-up on previous audits to the extent that such management actions could affect the planning of the current engagement.
  - In **paragraph A1.08f**, **GAGAS** indicates that establishing and maintaining a process to track the status of findings and recommendations is a management responsibility.

Concern 12 – Continuing Professional Education (CPE)

- **IIA Standard 1230** states, "Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development." **Practice Advisory 1230-1** states, "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 **IIA Standards** does not specify the number of hours recommended per year or biennially for auditors who are not certified.

Concern 12 – Continuing Professional Education (CPE) – cont'd

- In **paragraph 3.76**, **GAGAS** requires auditors to "complete, every two 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. Auditors who are involved in any amount of planning, directing, or reporting on GAGAS audits and auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS audits should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every two-year period) that enhances the auditor's professional proficiency to perform audits."

Concern 12 – Suggested Recommendation

- Audit organizations should follow the **more detailed CPE requirements of GAGAS** for all auditors and internal specialists performing work in accordance with GAGAS, whether certified or not.

Conclusion

- This presentation was based upon the *Supplemental Guidance: IIA International Standards for the Professional Practice of Internal Audit Government Accountability Office Government Audit Standards (GAGAS) A Comparison (2nd edition)*