

**Meeting of the
Yolo County Audit Subcommittee
September 12, 2024
11:30 a.m.**

All meetings of the Yolo County Audit Subcommittee will be held in person at the Yolo County Administration Building, located at 625 Court Street, Woodland, Room 202. Please note: Zoom participation will no longer be supported.

If you have anything that you wish to be distributed to the Committee and included in the official record, please contact Nathan Lugo, Audit Manager at least two (2) working days before the meeting at 530-666-8668 or nathan.lugo@yolocounty.gov.

Committee Members:

Chair, Mary Vixie Sandy	(Board of Supervisors – Voting)
Jim Provenza	(Board of Supervisors - Voting)
Lawrence Raber	(Public Member – Voting)

Yolo County Internal Audit Staff

Nathan Lugo	(Audit Manager – Non-voting)
Noemy Mora-Beltran	(Senior Auditor – Non-voting)

11:30 Am Call to Order

1. **Introductions.**
2. **Roll Call.**
3. **Approval of Agenda.**
4. **Follow-up of items from prior meeting (if any).**
 - a. Update on Subcommittee membership

5. Public Comment

This item is reserved for persons wishing to address the Committee on any related matters that are not otherwise on this meeting agenda. Public comments on matters listed on the agenda shall be heard at the time the matter is called. As with all public comment, members of the public who wish to address the Committee are customarily limited to 3 minutes per speaker, but an extension can be provided at the discretion of the chair.

CONSENT AGENDA

6. **Approval of prior meeting minutes for 6/13/2024**
7. **Summary of audit reports received by June 30, 2024 – County, Special Districts, JPAs, and Other Entities**

REGULAR AGENDA

8. **Update Regarding Audit Subcommittee Membership and Request for Additional Time for Analysis (Lugo)**
9. **Receive Update on the Division of Internal Audit and Ongoing Audits (Mora-Beltran/Lugo)**
10. **Review and Approve FY2024-25 Proposed Annual Audit Plan (Lugo)**
11. **Recommendation to Transition from IIA Red Book Standards to GAO Yellow Book Standards (Lugo)**
12. **Subcommittee comments and questions**
13. **Confirm next meeting date: November 14, 2024, at 11:30 to 12:30 pm**
14. **Adjournment (Approximately 12:30 p.m.)**

Public records that relate to any item on the open session agenda for a regular meeting are available for public inspection. Those records that are distributed less than 72 hours prior to the meeting are available for public inspection at the same time they are distributed to all members, or a majority of the members of the Committee. Public records are available for inspection by contacting Nathan Lugo, Audit Manager at 530-666-8668 or nathan.lugo@yolocounty.gov and meeting materials can be inspected at County offices located at 625 Court Street, Woodland, CA 95695; those interested in inspecting these materials are asked to call 530-666-8668 to make arrangements. The documents are also available on the County of Yolo Financial Oversight Committee website located at: <https://www.yolocounty.org/government/general-government-departments/financial-services/financial-oversight-committee>.

YOLO COUNTY AUDIT SUBCOMMITTEE

MINUTES OF MEETING June 13, 2024

Members present: Mary Vixie Sandy (Supervisor-Chair), Jim Provenza (Supervisor)

Others present: Nathan Lugo and Noemy Mora-Beltran (Internal Audit)

Moderator: Noemy Mora-Beltran

Recorded by: Noemy Mora-Beltran

- 1) **Call to order.** Mary Vixie Sandy called the meeting to order at 3:03PM with Jim Provenza in attendance. Quorum was formed. Larry Raber was absent.
- 2) **Introductions.** Members and Internal Audit above were in the meeting.
- 3) **Approval of agenda.** Agenda approved. (Vixie Sandy/Provenza)
- 4) **Follow-up items from prior meetings (if any).** Noemy Mora-Beltran reported that the committee requested a follow-up on the items listed below:
 - a. Salaries/employee benefits on the FY24-25 Internal Audit budget. Internal Audit confirmed the amount with the Department of Financial Services (DFS) Budget Division.
 - b. Brown Act and Bagley-Keene Meeting Act regulations around executive session meetings. Internal Audit confirmed with County Counsel and per the Brown Act, if more than two members meet, it constitutes a quorum and the item needs to be agendaized. The Bagley-Keene Act does not apply to local government.

The subcommittee members requested that Nathan Lugo collaborate with Gerardo Pinedo to explore the process for adding two additional members to the Audit Subcommittee to enhance the committee's effectiveness. The subcommittee also wants future meetings to be adjacent to the Financial Oversight Committee to increase efficiencies. Internal Audit staff will follow-up on both items.

- 5) **Public comment.** Noemy Mora-Beltran reported that no public comments were received for the record.

Consent Agenda

- 6) Approve prior meeting minutes 02/01/2024
- 7) Receive Division of Internal Audit Annual Report of Organizational Independence
- 8) Receive Division of Internal Audit Self-Assessment Report

Consent Agenda approved. (Vixie Sandy/Provenza)

Regular Agenda

9) Receive update on Audit Manager Onboarding (Lugo)

Nathan Lugo provided an update on key focus areas since being hired in April 2024. Nathan has reviewed the current Yolo County Strategic Plan, relevant policies and procedures, and initiated a countywide risk assessment. He has also met with members of the Board of Supervisors, County Counsel, and department heads to get familiar with Yolo County operations and culture and to obtain feedback on the Internal Audit function. In addition, Nathan has assessed the Division of Internal Audit to understand past audit work and identify challenges and opportunities for improvement.

10) Receive update on changes to Internal Audit Reporting Lines (Lugo)

Nathan Lugo provided an update on the tasks completed since the Board of Supervisors approved the restructuring of the Internal Audit administrative support on February 13th, 2024. Nathan has worked with County Counsel to revise the Internal Audit Charter and confirmed that no ordinance updates are required. He also met with the Clerk of the Board to coordinate the transition. Nathan has worked with Tom Haynes and DFS staff to establish a business agreement with the DFS satellite team to provide fiscal and budgetary support. Finally, the Internal Audit website location has been moved from DFS to the Board of Supervisors section and departmental templates were updated to remove DFS headers and references.

11) Receive update from Internal Audit Manager on the status of the FY23/24 Audit Plan/Reports and Approve next steps for FY24/25 Audit Plan (Mora-Beltran/Lugo)

Nathan Lugo provided a status of the audits completed for FY2023-24: capital projects, countywide purchase card, IT governance & strategy, subrecipient compliance monitoring, and fiscal monitoring reviews. Planning has started for the payroll processing (Internal Audit) and the vendor performance monitoring (on-call auditors) audits. Internal Audit also performed a preliminary walkthrough for the ACE (Assessor/Clerk-Recorder/Registrar) technology systems audit and determined that an audit is likely not warranted given the low level of risk due to new systems implementations and staff updates.

Nathan also proposed a revision to the FY2024-25 audit plan that would include a countywide risk assessment, evaluation of the existing three-year audit plan, flexibility for resource challenges, removal of administrative tasks, and consideration of a variety of risk inputs.

Approved by (Vixie Sandy/Provenza)

12) Receive update on Internal Audit staff recruitments (Lugo)

Nathan Lugo provided an update on the recruitment of Internal Audit staff positions. On March 12, 2024, the Board of Supervisors approved a reallocation of the previous Auditor I/II to an Auditor III position. Nathan is working with Human Resources on updating the class specifications for the Auditor III and is currently waiting for revisions from the bargaining unit. The MOU with the Health & Human Services Agency (HHS) for a fiscal monitoring Auditor II position has been revised and forwarded to HHS for review on June 6, 2024.

13) Receive update on status of the Whistleblower Hotline (Lugo)

Nathan Lugo provided a status update on the whistleblower hotline. The whistleblower case management system was set up with both Human Resources (HR) and an Internal Audit as case managers. Due to the recent HR Director vacancy, Internal Audit is managing all incoming cases. As of June 10, 2024, there have been 34 cases received through the hotline. Of the cases received, 16 cases (47%) have been closed and 18 cases (53%) are still pending. Most of the open cases are referrals to other departments or HR cases related to personnel matters. Internal Audit is working on standardizing procedures and referring HR cases.

14) Subcommittee comments and questions

None

15) Confirm next meeting date: July 18, 2023, at 10:00 to 11:00 am

The next meeting for July 18, 2024 needs to be rescheduled to align with the Financial Oversight Committee meeting per the subcommittee's request. Internal Audit staff to coordinate new meeting.

16) Adjournment (Approximately 4:05 p.m.)

County of Yolo
 Summary of Audit Reports - County
 Received During Fiscal Year Ending - June 30, 2024

No.	Audit Report Title	Audit Firm	Audit Period	Results and Findings	Date Issued
1	Colusa, Sutter, and Yolo Regional Child Support Agency - Information Security Audit	California Department of Child Support Services	11/22/2023	Findings: 10 - No physical barriers to protect Federal Tax Information (FTI); switches and servers not meeting minimum protection standards; no inventory of keys and combinations for areas that contain FTI; switch closets not secured; vulnerability scanning not conducted; no compliance scans or evaluations for information systems; printers not restricted for device connections; no destruction of electronic media containing FTI; no system monitoring for potential attacks and unauthorized connections; no review of visitor access logs.	11/22/2023
2	Countywide Capital Projects Audit	Division of Internal Audit	7/1/2019 to 7/31/2022	Findings: 24 - Various systems used to track expenditures; expenditure reports required substantial amount of manual effort; expenditures coded incorrectly in the Infor system; payments made through claim instead of authorized procurement method; contract amounts not properly adjusted in Infor; no central file location for contract agreements; public works contract agreement forms not standardized; Board of Supervisors staff reports not saved in Infor; contract agreements not signed by authorized officials; work authorizations for on-call services not properly used; change orders and amendments not properly tracked; change orders and amendments used interchangeably; forms for contract modifications not including all components for changes; change orders for public works contracts exceeded the delegated authority for department heads and the amount prescribed by governing code; change orders and amendments not signed by authorized officials; contract modifications not in compliance with contract terms and conditions; invoices not in accordance with contract provisions; inadequate supporting documentation for payments; reconciliations not performed at the end of project; contract closeout checklists not prepared; notices of completion not available; County policy on capital project management not complete; no procedures manual on capital project processes.	10/26/2023
3	Department of Community Services - Environmental Health Certified Unified Program Agency (CUPA) Performance Evaluation	California Environmental Protection Agency (CalEPA)	September 2020 to February 2021	Findings: 7 - Incomplete Unified Program administrative procedures; components of the Inspection and Enforcement (I&E) Plan were missing, incomplete, or inaccurate; changes to roles and responsibilities of the West Sacramento Fire Department not approved by the CalEPA; operating permits not consistent with Underground Storage Tank (UST) Regulations; Underground Storage of Hazardous Substances not inconsistent with UST Regulations; no ELD (enhanced leak detection) testing required; Hazardous Waste Generator Program and Aboveground Petroleum Storage Act Program violations not properly classified.	5/10/2021
4	Department of Community Services - Environmental Health Local Primacy Agency Annual Evaluation	State Water Resources Control Board-Division of Drinking Water	Fiscal Year 2021-22	Findings: 1 - Systems operating without a full water system permit.	10/20/2022
5	District Attorney Automobile Insurance Fraud Grant	Clifton Larson Allen LLP	7/1/2020 - 6/30/2021	No Findings noted.	9/24/2021
6	District Attorney Workers' Compensation Insurance Fraud Grant	Clifton Larson Allen LLP	7/1/2020 - 6/30/2021	No Findings noted.	9/24/2021
7	Health and Human Services Agency - Desk Monitoring of Emergency Solutions Grant (ESG-CV Funded Programs)	Department of Housing & Community Development	7/20/2023	Findings 13: Incomplete written policies and procedures; non-compliant intake procedures; inconsistent eligibility documentation for rapid re-housing; inadequate documentation for homelessness prevention eligibility; missing habitability and rent reasonableness documentation; non-compliance with homelessness prevention requirements; non-compliance with Lead-Based Paint requirements; no documentation for compliance with Violence Against Women Act requirements; improper prerequisite activities for assistance; no sufficient documentation for payments with ESG-CV funds; inadequate documentation for direct personnel costs; insufficient documentation for non-personnel costs; no policies & procedures for adequate internal controls.	10/26/2023
8	Health and Human Services Agency - Monitoring Report for the Workforce Innovation and Opportunity Act (WIOA)	State of California Employment Development Department	Fiscal Year 2022-23	Findings: 1 - Fiscal monitoring for 2022-23 not completed.	1/8/2024
9	IT Strategy and Governance Audit	Baker Tilly CPA	10/26/2023	Findings: 11 - Outdated IT strategic framework; lack of documented reviews; lack of documented procedures; misalignment of IT strategy and tactical plan; inconsistent project execution documentation; lack of performance monitoring for IT projects; lack of risk monitoring for all projects; lack of oversight over IT operations; no monitoring over IT operations; no formalized documentation for managing day-to-day operations; no documentation for measuring and tracking resources.	10/26/2023
10	Probation Department - Review of Standards & Training for Corrections Program	State of California Board of State & Community Corrections	Fiscal Year 2021-22	No Findings noted.	8/23/2022
11	Purchase Card Audit	Division of Internal Audit	7/1/2021 to 6/30/2022	Findings: 9 - Internal control over purchase card program operations; improvement needed on managing purchase card accounts; authorization for access to restricted merchant codes not on file; lack of supporting documentation for purchase card transactions; no description of business purpose; goods not verified when received; purchase card statements not approved; purchase cards used instead of authorized procurement methods; eligibility of client purchases need improvement.	10/24/2023
12	Sheriff/Coroner/Public Administrator Office - Peace Officer Standards and Training Program	California State Controller	7/1/2021 to 6/30/2022	No Findings noted.	7/12/2023
13	Treasury Cash Count QE 6/30/2023	Division of Internal Audit	QE 6/30/2023	No Findings noted.	7/19/2023
14	Treasury Cash Count QE 9/30/2023	Division of Internal Audit	QE 9/30/2023	No Findings noted.	11/16/2023
15	Treasury Cash Count QE 12/31/2023	Division of Internal Audit	QE 12/31/2023	No Findings noted.	1/17/2024
16	Treasury Cash Count QE 3/31/2024	Division of Internal Audit	QE 3/31/2024	No Findings noted.	5/7/2024
17	Yolo County Audit of County Annual Financial Report	Lance, Soll & Lunghard (LSL)	Fiscal Year 2022-23	Unmodified.	6/3/2024
18	Yolo County Single Audit Report	Lance, Soll & Lunghard (LSL)	Fiscal Year 2022-23	Findings: 4 - No general ledger reconciliation to the financial reporting software; revenues and capitalized expenses on Federal Aviation Administration grant not recorded; delays on preparing the financial statements; account balances not reconciled to accounting records. Questioned Costs \$353,441	6/3/2024

County of Yolo
 Summary of Audit Reports - County
 Received During Fiscal Year Ending - June 30, 2024

No.	Audit Report Title	Audit Firm	Audit Period	Results and Findings	Date Issued
19	Yolo County Treasury Review	Lance, Soll & Lunghard (LSL)	QE 3/31/2023	Findings: 1 - Variances not resolved.	7/31/2023
20	Yolo County Treasury Review	Lance, Soll & Lunghard (LSL)	QE 6/30/2023	Findings: 1 - Variances not resolved.	11/9/2023
21	Yolo County Treasury Review	Lance, Soll & Lunghard (LSL)	QE 9/30/2023	Findings: 1 - Variances not resolved.	2/15/2024
22	Yolo County Treasury Review	Lance, Soll & Lunghard (LSL)	QE 12/31/2023	Findings: 2 - Delayed bank reconciliations; variances not resolved.	5/22/2024
23	Yolo County Treasury Review	Lance, Soll & Lunghard (LSL)	QE 3/31/2024	Findings: 2 - Delayed bank reconciliations; variances not resolved.	5/28/2024

County of Yolo
Summary of Audit Reports - Joint Power Agency and Other Entities
Received During Fiscal Year Ending - June 30, 2024

No.	Audit Report Title	Audit Firm	Audit Period Ending	Results and Findings	Date Issued
1	California Joint Powers Risk Management Authority	Maze & Associates	6/30/2023	Unmodified.	3/14/2024
2	Conaway Ranch (Reclamation District No. 2035)	Richardson & Company	6/30/2021 & 6/30/2022	Unmodified.	5/23/2023
3	Cooperative Agricultural Support Services Authority	Gilbert CPAs	6/30/2023	Unmodified.	3/26/2024
4	Golden State Finance Authority	Moss Adams	12/31/2022	Unmodified.	4/20/2023
5	Golden State Finance Authority	Moss Adams	12/31/2023	Unmodified.	4/19/2024
6	River City Regional Stadium Financing Authority (JPA included in the City of West Sacramento CAFR)	Lance, Soll & Lunghard, LLP	6/30/2023	Unmodified.	3/29/2024
7	West Sacramento Area Flood Control Agency Joint Powers Authority (West SAFCA)	Lance, Soll & Lunghard, LLP	6/30/2023	Unmodified.	3/26/2024
8	Yolo County Habitat/Natural Community Conservation Plan Joint Power Agency	Maze & Associates	6/30/2023	Unmodified.	5/3/2024
9	Yolo County Public Agency Risk Management Insurance Authority (YCPARMIA)	Crowe LLP	6/30/2022 & 6/30/2023	Unmodified - Total Findings 1.	6/28/2024
10	Yolo Emergency Communications Agency (YECA)	Richardson & Company	6/30/2023	Unmodified - Total Findings 3.	2/26/2024
Other Entities					
12	Dunnigan Water District	Horton McNulty & Saeteurn, LLP	12/31/2022	Unmodified.	1/12/2024
13	First 5 Yolo County Children and Families Commission	Jensen Smith Certified Public Accountants	6/30/2023	Unmodified.	10/18/2023
14	Knights Landing Ridge Drainage District	Smith & Newell	12/31/2022	Unmodified.	8/31/2023
15	Sacramento Area Council of Governments	Eide Bailly	6/30/2023	Unmodified.	12/19/2023
16	Yolo County Flood Control & Water Conservation District	Mann, Urrutia, Nelson CPAs	6/30/2022 & 6/30/2023	Unmodified.	9/27/2023
17	Yolo County Housing - Financial Statements	CohnReznick LLP	6/30/2023	Unmodified.	3/29/2024
18	Yolo County Housing - Single Audit	CohnReznick LLP	6/30/2023	Unmodified.	3/29/2024
19	Yolo County Local Agency Formation Commission (LAFCo)	Richardson & Company	6/30/2019, 6/30/2020, & 6/30/2021	Unmodified - Total Findings 1.	1/19/2022
20	Yolo County Transportation District	Richardson & Company	6/30/2023	Unmodified.	5/25/2024

County of Yolo
Summary of Audit Reports – Special Districts
Received During Fiscal Year Ending – June 30, 2024

Audit Report Title	Audit Firm	Audit Period	Results and Findings	Date Issued
Reclamation District 150- Independent Auditor's Report Financial Statement	Croce, Sanguinetti & Vander Veen Certified Public Accountants	07/01/2022- 06/30/2023	Unmodified. No Findings	05/08/2024
Winter's Cemetery – Independent Auditor's Report Financial Statements	Nigro and Nigro Certified Public Accountants	07/01/2022- 06/30/2023	Unmodified. No Findings	01/26/2024
Yolo County Resource Conservation	Perry, Bunch & Johnston Inc	07/01/2022- 06/30/2023	Unmodified. No Findings	11/27/2023



COUNTY OF YOLO
CALIFORNIA

Division of Internal Audit
Nathan Lugo, Internal Audit Manager

MEMORANDUM

TO: Audit Subcommittee Members

FROM: Nathan Lugo, Internal Audit Manager

DATE: September 12, 2024

SUBJECT: Agenda Item #8 - Update on Legal Issues Regarding Audit Subcommittee Membership and Request for Additional Time for Governance Analysis

Purpose

The purpose of this memorandum is to update the Audit Subcommittee on legal issues encountered regarding the potential expansion of the subcommittee's membership and to request additional time to conduct a comprehensive analysis of the Audit Subcommittee's governance structure.

Background

During the June 13, 2024 meeting, the Audit Subcommittee directed me to collaborate with the County Administrator to explore the process for adding up to two additional members from the Financial Oversight Committee (FOC) to the Audit Subcommittee. After consulting with County Counsel, it was determined that such an increase in membership would result in a quorum of the FOC, which could be interpreted as a de facto meeting of the full committee. This raises legal concerns regarding compliance with public meeting laws.

While alternatives exist, such as appointing public members who are not part of the FOC, implementing this option would require formal amendments to the FOC's charter. Even with those amendments, there are critical governance issues that need to be considered.

Key Considerations

1. **Previous Governance Documentation:** The Audit Subcommittee's governance framework was established in 2015 as part of the Internal Audit Charter. However, later revisions removed much of the detailed governance provisions. While the current FOC and Internal Audit Charters briefly reference the subcommittee's responsibilities, they lack the comprehensive structure needed to guide its activities effectively. This absence of a fully developed framework leaves the subcommittee without the clarity and direction required for proper oversight and fulfilling its mandate.

2. **Authority of the Financial Oversight Committee (FOC):** As outlined in *County Code - Article 38, Section 2-2.3806: Duties and Responsibilities* (see attached), the Financial Oversight Committee (FOC) operates in an oversight and advisory role, without authority to direct county staff. This limitation extends to the Audit Subcommittee, which also lacks authority to direct Internal Audit staff. This creates a challenge, as the subcommittee's role in approving audit plans and directing staff actions conflicts with the FOC's advisory mandate. Addressing this inconsistency requires either modifying the FOC's charter to grant the Audit Subcommittee appropriate authority or separating the two committees to enable independent governance. Any governance revisions should align with the FOC's role of ensuring transparency and providing recommendations without direct operational control.

3. **Evolving Scope of Internal Audit and Governance Alignment:** The Division of Internal Audit's scope has expanded beyond its original financial focus to include performance audits, compliance reviews, and management of the county's whistleblower hotline. Having shifted from its previous alignment with the Department of Financial Services, the division now conducts only limited financial reviews. Given this broader scope of work, the Audit Subcommittee of the FOC may no longer be the most suitable governing body. Effective governance should align with Government Auditing Standards (GAGAS), requiring an independent oversight body with a clearly defined role covering all audit activities. A well-documented charter is crucial to outlining these responsibilities and ensuring proper governance.

Request for Additional Time

Due to the legal and governance complexities outlined above, I am requesting additional time to prepare a comprehensive staff report. This report will analyze the current governance structure and provide recommendations for sustainable changes that align with legal requirements and best practices. The report will be presented at the next Audit Subcommittee meeting on November 14, 2024.

Sincerely,



Nathan Lugo, CPA, CIA, CFE
Internal Audit Manager

Article 38. Financial Oversight Committee

Sec. 2-2.3801. Creation of Financial Oversight Committee.

(a) There shall be created a Financial Oversight Committee to advise the Board regarding the oversight of financial reporting, audit, the treasury, budgeting, and tax allocation.

(b) The Committee shall, subject to Board approval, adopt and revise a charter for the Committee setting forth membership criteria and powers consistent with the County Code of Ordinances.

(c) The Committee's charter shall include the following requirements for members of the Committee:

(i) A member shall disclose to the committee at a regular meeting any activities that directly or indirectly raised money for:

a. a candidate for local treasurer; or

b. a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.

For purposes of this subsection, raising money includes soliciting, receiving, or controlling campaign funds of a candidate, but not the member's individual campaign contributions or non-financial support. This section does not apply to a member raising money for his or her own campaign.

(ii) A member shall disclose to the Committee at a regular meeting any contributions, in the previous three years or during the period that the employee is a member of the committee, by an employer to:

a. the campaign of a candidate for the office of local treasurer; or

b. to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury.

(iii) A member cannot secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, financial services firms, financial institutions, and municipal advisors with whom the County is doing business during the member's Financial Oversight Committee membership period or for one year after leaving the Financial Oversight Committee. This subsection only applies to employment or soliciting employment, and not other relationships with such companies with whom the County is doing business.

(iv) A member shall disclose to the Committee any honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons who conduct business with the County Treasurer while a member of the Committee. All members shall also comply with the requirements of the Political Reform Act or any other law or regulation regarding the receipt and disclosure of financial benefits and conflicts.

(§ 4, Ord. 1450, eff. January 5, 2015, as amended by § 2, Ord. 1471, eff. October 13, 2016)

Sec. 2-2.3802. Membership.

The Financial Oversight Committee shall consist of seven (7) voting members as follows:

(a) Two (2) members of the Committee shall be members of the Board, appointed by the Board.

(b) One (1) member of the Committee shall be the Superintendent of the Office of Education, or his or her designee.

(c) One (1) rotating member of the Committee shall be a City Council member or employee of any City within the County. Prior to each term, each City within the County may nominate one (1) individual to serve on the Committee. The Board shall appoint the member from these nominees.

(d) One (1) rotating member of the Committee shall be a board member or employee of any special district within the County which, in the preceding twelve (12) months, has had funds on deposit with the County treasury. Prior to each term, each special district whose jurisdiction includes any portion of the County may nominate one (1) individual to serve on the Committee. The Board shall appoint the member from these nominees.

(e) Two (2) rotating members of the Committee shall be members of the public residing in the County of Yolo. The member shall not be a board member or employee of the County, any City within the County, or any special district within the County which, in the preceding twelve (12) months, has had funds on deposit with the County treasury. Any qualifying individual may submit an application, and any Board member or current Committee member may nominate a qualifying individual to the Board for consideration. The Board shall appoint the members from these applicants and nominees. At least one (1) public member appointed by the Board must have financial expertise as described in the Committee's charter. (§ 4, Ord. 1450, eff. January 5, 2015)

Sec. 2-2.3803. Membership: Non-Voting and Alternate Members.

(a) The Chief Financial Officer and County Administrative Officer, or their designees, shall each be non-voting members of the Committee.

(b) Except for the public members, each member may designate an alternate member to have all the power of a voting member in his or her absence.

(c) Each member shall be financially literate, as described in the Committee Charter. (§ 4, Ord. 1450, eff. January 5, 2015)

Sec. 2-2.3804. Membership: Terms and Termination.

(a) The terms of each member shall be three (3) years and shall commence on March 1 and end on February 28 (or February 29 on leap years).

(b) A vacancy shall exist upon the death, resignation, or termination of the member. Vacancies shall be filled for the unexpired term by the Board of Supervisors. In the case of members nominated by a City or special district, the Board of Supervisors shall solicit and receive new nominations prior to making the appointment. Each member shall serve upon the appointment and qualification of a successor.

(c) A member may be terminated for cause by the Board at any time. The Committee may, by two-thirds vote, recommend to the Board that a member be terminated. At a public meeting within 60 days of the Committee's recommendation, the Board shall decide, in its sole discretion, whether or not to terminate the member.

(d) Any member of the Committee may resign at any time by submitting a written resignation to the Clerk of the Board. Any such resignation shall be effective upon submission, or upon such later date as is specified in the resignation if such date is not more than sixty (60) days after the date of submission.

(e) At least one (1) month prior to the Board's appointment of any voting member, whether to a new term or to complete an existing term, the Clerk of the Board or the Chief Financial Officer shall solicit nominations for the positions. For the member nominated by the cities within the County, the solicitation shall be mailed to each of the cities. For the member nominated by the districts, the solicitation shall be mailed to each of the special districts. For the public member, the solicitation shall be published for three (3) consecutive days in a newspaper of general circulation within the County. 13

The preceding does not apply to the appointment of Committee members who are members of the Board or the Superintendent of the Office of Education. (§ 4, Ord. 1450, eff. January 5, 2015, as amended by § 2, Ord. 1471, eff. October 13, 2016)

Sec. 2-2.3805. Meetings.

(a) Meetings of the Committee shall be held at such regular times as determined by the Committee. In no event shall the Committee meet less than once every three (3) months.

(b) The Board of Supervisors shall designate a representative of the County who shall serve as the liaison to the Committee and shall assist in the administration of all meetings.

(c) The Committee shall file a copy of all minutes with the Clerk of the Board of Supervisors.

(d) A quorum for meetings of the Committee shall consist of not less than one-half (1/2) of the currently appointed members. A majority vote of the members present shall be required for any motion, resolution, or other action.

(e) All meetings shall be held and conducted in accordance with the provisions of the Ralph M. Brown Act, Government Code section 54950 et seq. (§ 4, Ord. 1450, eff. January 5, 2015, as amended by § 2, Ord. 1471, eff. October 13, 2016)

Sec. 2-2.3806. Duties and Responsibilities.

(a) The Committee shall provide oversight on treasury operations, leadership and independence over the monitoring, review, and audit of the County's business activities, and ensure accountability and transparency over the budgetary and tax distribution process.

(b) The Committee shall perform all of its duties in an advisory role to the Board of Supervisors, and shall have no direct authority over the Chief Financial Officer or any County officer or staff regarding County financial operations.

(c) The Committee shall not be designated the treasury oversight committee under Government Code section 27131.

(d) The Committee shall advise the Board on the selection of an independent, qualified, and licensed outside auditor to conduct an annual audit of the internal controls of the County. The auditor shall report to the Committee the results of the audit upon completion of the audit report. The Committee shall review the audit report and make recommendations to the Board related to the audit's findings.

(e) The Committee shall advise the Board on the recruitment, hiring, and termination of the Chief Financial Officer. (§ 4, Ord. 1450, eff. January 5, 2015, as amended by § 2, Ord. 1471, eff. October 13, 2016)



COUNTY OF YOLO
CALIFORNIA

Division of Internal Audit
Nathan Lugo, Internal Audit Manager

AUDIT SUBCOMMITTEE STAFF REPORT

DATE: September 12, 2024
ITEM: 9
FROM: Nathan Lugo, Internal Audit Manager
SUBJECT: Status Update on the Division of Internal Audit and Ongoing Audits

Purpose

The purpose of this staff report is to provide the Audit Subcommittee with an update on the current status of the Division of Internal Audit, including an overview of operations, staffing, resources, and the progress of audits that have been initiated to date.

Background

The Division of Internal Audit plays a critical role in ensuring that Yolo County's operations are conducted efficiently, effectively, and in compliance with applicable laws and regulations. As part of our commitment to transparency and accountability, regular updates are provided to the Audit Subcommittee.

Operational Updates

1. Development of revised FY 2024-25 Audit Plan

- Internal Audit had previously conducted audits based on a three-year audit plan developed by an external audit firm in 2022. Following direction from the Audit Subcommittee at the June 13, 2024 meeting, the Internal Audit Manager conducted a countywide risk assessment and developed a revised audit plan for FY 2024-25. Key inputs in the risk assessment included meetings with department heads and key stakeholders from May through July 2024, the prior three-year audit plan, a review of historical budget figures and county documents and reports, as well as the Internal Audit Manager's knowledge of the County and inherent risks in local government. The audit plan also includes considerations for potential additional work if resources are expanded through ongoing recruitments.

2. **Changes to Administrative Reporting Lines**

- Nearly all substantive changes necessary to implement this transition have been completed. A few outstanding tasks remain, including revising the Internal Audit Charter and transferring the internal audit budget unit out of DFS, which is scheduled to occur following the adoption of the final county budget for FY 2024-2025 in September 2024. The Internal Audit Charter has been revised but not finalized, as further potential changes related to Audit Subcommittee governance are still under consideration.

3. **Division Policies and Procedures Revisions**

- The Division of Internal Audit needs to update its departmental policies, procedures, and audit methodologies to ensure they align with current practices. This revision is long overdue, as these documents have not been updated in many years. The Internal Audit Manager will be leading this project in the fall and winter of 2024, with the goal of implementing the new policies and procedures in 2025.

4. **Internal Audit's Management of the Whistleblower Hotline**

- The Division of Internal Audit manages the County's whistleblower hotline, overseeing investigations or referring issues to the appropriate County departments in accordance with the County's Whistleblower Policy. The Division is currently handling 10 open cases, with plans to close these within the next six weeks. The hotline also receives HR and personnel complaints, serving a dual purpose. While Internal Audit has temporarily managed all cases during the vacancy of the HR Director role, it is now necessary and prudent to collaborate with the new HR Director to formalize the process for investigating matters within our respective areas of responsibility. We plan to meet with the HR Director this month to discuss and establish this process.

5. **Initiative to Update and Report on Corrective Action Plans (CAPs)**

- The Division of Internal Audit has launched an initiative to ensure all County departments are up to date with their corrective actions. We have reached out to all departments with outstanding corrective actions, requesting status updates. We are currently reviewing these responses and will follow up, as necessary. Our goal is to present a current report on Corrective Action Plans (CAPs) to the Audit Subcommittee in Fall 2024 or early 2025.

Staffing and Resources

1. **Limited Staff**

- The Division of Internal Audit is currently operating with a limited staff, consisting of only two members: An Audit Manager and an Auditor III. This staffing shortage has impacted our ability to initiate new audits, causing some delays in our planned audit schedule. We are actively working to address this issue, but in the meantime, our focus has been on managing ongoing audits and administrative projects as effectively as possible.

2. Auditor III Recruitment

- The Division of Internal Audit is actively recruiting for an Auditor III. The job posting has been active for approximately 45 days, but we have only received two applications. As a result, we have transitioned the recruitment to a continuous process and will monitor applicants with the goal of onboarding someone in the fall of 2024.

3. HHS MOU for Fiscal Monitoring

- The Division of Internal Audit is nearing completion of a Memorandum of Understanding (MOU) with the Health and Human Services Agency (HHS) to facilitate the recruitment of an Auditor II. This position is critical for transitioning the fiscal monitoring program in-house, thereby reducing our reliance on outsourced auditors for subrecipient and contract monitoring activities. Due to the timing of this recruitment, it is anticipated that the next cycle of fiscal monitoring will still require outsourcing. However, we aim to have the new Auditor II in place to assume these responsibilities in FY 2025-26.

Status of Ongoing Audits

1. Vendor Performance Monitoring Audit

- The Division of Internal Audit initiated a Vendor Performance Monitoring Review in May 2024 to evaluate the effectiveness of vendor performance assessments and service level agreement compliance for third-party risk management. This review includes an assessment of key metrics, monitoring processes, reporting, and escalation procedures. The audit is currently in the reporting phase, with results to be presented at the November Audit Subcommittee meeting.

2. FY22-23 SUD/SABG Contract Monitoring (HHS)

- The Division of Internal Audit, in collaboration with Eide Bailly CPAs, recently completed the FY 2022-23 contract monitoring reviews for HHS's Substance Use Disorder (SUD) contracts. Although some organizations had findings, there were no indications of elevated risk to the County in continuing business with these entities. Internal Audit will follow up with these organizations as part of our issue tracking and fiscal monitoring plan.

3. Payroll Processing Audit (HR)

- In July, Internal Audit initiated an audit of payroll, which was carried over from the approved FY 2023-24 audit plan. The audit scope was revised to include a review of payroll processes such as health benefit calculations, leave balances, employee pay rates, retros/overpayments, and W-2 issuance and reporting. Although the audit was initiated, planning procedures were delayed allowing time for the new HR Director to be onboarded and to participate in the audit alongside the Deputy County Administrator, who has been serving as Interim HR Director. With the recent hiring of a permanent HR Director, we plan to begin the planning procedures with their active participation, as this approach is expected to enhance the audit's effectiveness and value.

4. Special Review of Property Tax Rate Calculations (DFS)

- In August 2024, the CFO requested Internal Audit to conduct limited procedures on the department of Financial Services' calculations of property tax rate assessments for school bonds. Internal Audit agreed to perform these procedures within the short timeframe provided and has subsequently included a more comprehensive review of the property tax calculations in the FY 2024-25 audit plan.

5. Special Request to Observe Proposition 218 Recount (CAO)

- In August 2024, the CSA Manager requested that Internal Audit observe a recount of the Proposition 218 protest votes related to a recent increase in water and sewer rates for the Wild Wings County Service Area. Internal Audit observed the process but did not perform additional procedures. Based on our observations, we have added a review of the Proposition 218 voting process to the FY 2024-25 audit plan to assess the adequacy of internal controls and ensure adherence to state and county regulations.

Key Findings and Issues

- There are no reportable conditions or findings currently.



COUNTY OF YOLO
CALIFORNIA

Division of Internal Audit
Nathan Lugo, Internal Audit Manager

September 12, 2024

Yolo County Audit Subcommittee
Woodland, CA 95695

Re: Division of Internal Audit Proposed Workplan for Fiscal Year 2024-25

Attached for your review and approval is the Division of Internal Audit's Proposed Work Plan for Fiscal Year 2024-25. This work plan is based on our annual countywide risk assessment, which provides a framework for evaluating the efficiency, effectiveness, and compliance of county operations to ensure optimal use of resources and alignment with objectives.

California Government Code Section 1236 requires that all city, county, and district auditors follow standards set by the Institute of Internal Auditors (IIA) or Government Auditing Standards issued by the U.S. Comptroller General. These standards highlight the need for a risk-based approach to prioritize audit activities, ensuring resources are focused on areas with the greatest potential impact and risk to the organization.

Our countywide risk assessment, conducted from May to July 2024, included interviews with elected officials, executive management, department heads, and key stakeholders. We also reviewed county budgets, strategic plans, grand jury reports, board minutes, and policies, comparing these findings with industry risks.

Due to limited resources, we will outsource selected projects. Audits are categorized into two levels:

- Priority I: High-risk or time-sensitive audits to be completed this fiscal year
- Priority II: Lower-risk audits to be initiated as resources allow

We look forward to delivering insightful and objective performance audit and advisory services to the Board of Supervisors, executive management, county departments, and the public, with a focus on promoting accountability, improving efficiency, and enhancing county services.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Nathan Lugo, CPA, CIA, CFE
Internal Audit Manager

2024-25 WORK PLAN

Yolo County Division of Internal Audit



INSIDE

Our Mission

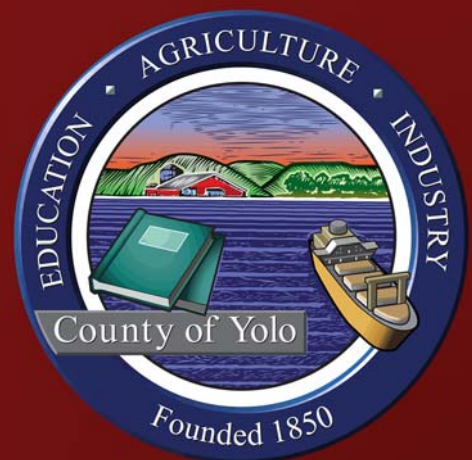
Performance Audit Plan

HHSO Audit Plan

Continuous & Mandated Audits

Audit Selection Process

Auditor's Authority



OUR MISSION

The Division of Internal Audit is essential in upholding Yolo County's commitment to organizational integrity and transparency. Our mission is to *"enhance and protect organizational value by providing risk-based, objective assurance, advice, and insight."*

To help Yolo County achieve its goals, the Division of Internal Audit employs a systematic, disciplined approach to assess and enhance the effectiveness of governance, risk management, and control processes. This often includes verifying compliance with applicable laws and regulations, evaluating operational efficiency, and identifying internal control gaps or failures.

In accordance with the Yolo County Internal Audit Charter, which the Board of Supervisors has approved, the Internal Audit Manager is required to submit an annual risk-based audit plan for review and approval by the Audit Subcommittee. This report outlines the Division of Internal Audit's Proposed Work Plan for FY 2024-25.

The risk-based work plan is developed using both qualitative and quantitative metrics. By drawing on a broad range of information sources, our aim is to present the Audit Committee with a work plan that ensures fairness and maximizes value. The plan ensures the Division of Internal Audit focuses its resources on areas of the highest audit priority, aligning with the County's strategic needs. The outcome of this process forms the foundation of the Annual Work Plan.

Recognizing the potential for special requests throughout the year, we have allocated some of our Division's capacity to respond to such requests efficiently and in a timely manner.

I am pleased to present the Proposed Annual Work Plan for FY 2024-25. My team and I look forward to bringing the Audit Subcommittee and the Board of Supervisors valuable insights and recommendations to improve the efficiency and effectiveness of County operations.

Sincerely,



Nathan Lugo
Internal Audit Manager

PERFORMANCE AUDITS

Audits in Progress

General Services Department	Vendor Performance Monitoring	The objective of this audit is to assess vendor performance and compliance with service level agreements, with the aim of evaluating the effectiveness of third-party risk management, due diligence in service provider selection, and overall performance of the vendors. (300 hours – Outsourced)
Human Resources	Payroll Processing	The objective of this audit is to perform a review of payroll processes including the health benefit calculation, leave balances, employee pay rates, retros/overpayments, and W2 issuance and tax reporting. (400 hours - Internal)

Priority I Audits (In Tentative Order)

County Administrator	American Rescue Plan Funding	The objective of this audit is to assess whether the American Rescue Plan funds were distributed in accordance with the allowable uses of the awards to achieve the intended program goals. (300 hours – Internal)
Department of Financial Services	Property Tax Calculations of Voter Approved Debt	The objective of this audit is to evaluate the adequacy of internal controls over the County's property tax calculations for voter-approved debt (school district bonds) to ensure accurate assessments and compliance with applicable regulations. (120 hours – Internal)
General Service Department	Biennial P-card Program Review	The objective of this review is to evaluate the adequacy of internal controls, program management, and compliance of the purchase card program, with a focus on card management, merchant oversight, and transaction analysis. (200 hours – Internal)
Innovation & Technology Services	INFOR System Effectiveness and Workflow Integration	The objective of this audit is to assess the operational usability of the INFOR system, its effectiveness in supporting workflow integration, the accuracy of data entry and validation, system performance, user training, and ongoing support mechanisms. (500 hours – Outsourced)
County Administrator (CSAs)	Proposition 218 Election Process Review	The objective of this review is to assess the adequacy of internal controls in the County's Proposition 218 election process and adherence to state and county regulations. (200 hours – Internal)

PERFORMANCE AUDITS

Priority II Audits (In Tentative Order)

Human Resources Department	Risk Management Effectiveness	The objective of this audit is to evaluate the effectiveness of the County's risk management function in identifying, analyzing, and mitigating risks across departments, to determine whether it aligns with best practices and supports the County's strategic objectives and operational needs. (400 hours – Internal)
Innovation & Technology Services	IT Disaster Recovery & Emergency Preparedness	The objective of this audit is to assess the adequacy and effectiveness of the county's IT disaster recovery and emergency preparedness plans for ensuring the protection and rapid restoration of critical systems and data. (300 hours – Outsourced)
Countywide	Competitive Bidding and Contract Compliance Review	The objective of this audit is to evaluate the County's competitive bidding process to determine the adequacy of contract compliance practices, with a focus on ensuring fairness, transparency, and alignment with procurement standards. (600 hours – Internal)
Department of Financial Services	AB 8 Property Tax Allocations	The objective of this audit is to assess the accuracy and compliance of AB 8 property tax allocations among local agencies, ensuring distributions align with statutory formulas and historical shares. (240 hours – Internal)
Countywide	Policies and Procedures	The objective of this audit is to assess the effectiveness of documented policies and procedures in promoting operational consistency, guiding employee actions, and ensuring compliance with organizational and regulatory standards. (300 hours – Internal)
General Services Department	Asset Management Review	The objective of the engagement is to assess the Countywide asset management practices including needs identification, procurement, maintenance, and disposal. (300 hours – Outsourced)
Countywide	Wireless Communications	The objective of the audit is to assess the management, usage, and security of the County's wireless communication devices to ensure cost-efficiency, proper oversight, and compliance with applicable policies and regulations. (400 hours – Internal)

HEALTH & HUMAN SERVICES AGENCY (HHSA)

The Division of Internal Audit supports HHSA's fiscal monitoring program and conducts ongoing compliance and performance reviews of the County's super agency to help identify risks and enhance operational effectiveness.

Work in Progress

Food and Nutrition Services Form 209 Validation Reviews for FY23 and FY24.	This engagement will include limited procedures to validate the Food and Nutrition Services (FNS) Form FNS-209, Status of Claims Against Households for the quarters ended June 30, 2023, and June 30, 2024. (80 hours – Outsourced)
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Priority I Audits (In Tentative Order)

HHSA Administrative Branch Performance Audit	This performance audit will review HHSA's Administrative Branch operations and function to develop recommendations for streamlining processes, expanding efficiencies, applying best practices, and performance monitoring. (400 hours – Outsourced)
HHSA Risk Assessment	The objective of this project is to conduct a comprehensive risk assessment of Yolo County's Health and Human Services Agency, identifying and evaluating key risks that could impact the agency's ability to achieve its objectives. (100 hours – Internal)
Increased Case Load	The objective of the engagement is to evaluate the department's policies and procedures, staffing levels, case load volume and system databases to determine if they are sufficient to administer program benefits to citizens when requested and as expected. (400 hours – Outsourced)

Fiscal Monitoring Contract Reviews (Annual)

Subrecipient Monitoring Reviews for FY24	The objective of this review is to perform subrecipient monitoring for Yolo County Health and Human Services Agency as required by Code of Federal Regulations 2 CFR part 200. (300 hours – Outsourced)
SUD/SABG Contract Monitoring Reviews for FY24	The objective of this review is to perform SUD/SABG contract monitoring for Yolo County Health and Human Services Agency as required by Code of Federal Regulations 2 CFR part 200. (300 hours – Outsourced)

AUDIT SELECTION PROCESS

The Division of Internal Audit's Work Plan is developed on an annual basis; however, the Audit Subcommittee or Board of Supervisors may add projects to the work plan during the year and the Internal Audit Manager may propose additional work should new risks emerge.

Audit topics are selected using a combination of quantitative and qualitative factors that come from a variety of sources. Areas of risk that may be assessed when evaluating risks related to a department or division include, but are not limited to:

- ✓ Annual Budget
- ✓ Number of Employees
- ✓ Funding Sources
- ✓ Age of Programs
- ✓ Fiscal Sustainability
- ✓ Customer Satisfaction
- ✓ Regulatory Compliance
- ✓ Significant Changes
- ✓ Criticality
- ✓ Emerging Areas of Risk

Input from elected officials, county management, the whistleblower hotline, and the public is also considered when developing the annual work plan.

AUDITOR'S AUTHORITY

The Yolo County Division of Internal Audit provides independent, objective assurance and consulting services designed to add value and improve Yolo County's operations. The Internal Audit Manager reports functionally to the Audit Subcommittee and administratively to the Clerk of the Board. The Internal Audit Manager works closely with the Board of Supervisors, Audit Subcommittee, Senior Management, Department Heads, and other key stakeholder when conducting audits and evaluating programs.

The Division of Internal Audit will govern itself by adherence to the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Audit and provides the Board of Supervisors and the public with objective, timely, and accurate information about the County government. Findings and recommendations are designed to enhance the efficiency and effectiveness of County operations.

The Audit Subcommittee authorizes the Division of Internal Audit to have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information. Additionally, the Division of Internal Audit will have the authority to allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.

Yolo County
 Division of Internal Audit
 FY2024-25 Work Plan (Proposed)

No.	Name of Engagement	Entity	Preliminary Objective	Type	Priority	Hours	% Complete	Status	Internal or Outsource
Performance Audits FY 2024-25									
1	Vendor Performance Monitoring	Countywide	To evaluate policies and procedures established to assess vendor performance and service level agreements compliance to determine effective third-party risk management, service provider due diligence and performance. Audit will focus on the following: - Development of key performance indicators - Identification of key monitoring documentation - Establish status reporting - Assignment of monitoring ownership - Escalation procedures for non-compliance or non-performance	One-time Project	Priority I	250	75%	In-Progress	Outsourced
2	Payroll Processing	Human Resources Department	To perform a review of payroll processes including the health benefit calculation, leave balances, employee pay rates, retros/overpayments, and W2 issuance and tax reporting.	One-time Project	Priority I	400	5%	In-Progress	Internal
3	American Rescue Plan Funding	County Administrator	To assess whether the American Rescue Plan funds were distributed in accordance with the allowable uses of the awards to achieve the intended program goals.	One-time Project	Priority I	300	0%	Not Started	Internal
4	Property Tax Calculations of Voter Approved Debt	Department of Financial Services	To evaluate the adequacy of internal controls over the County's property tax calculations for voter-approved debt (school district bonds) to ensure accurate assessments and compliance with applicable regulations.	One-time Project	Priority I	120	0%	Not Started	Internal
5	Biennial Pcard Program Review	General Services Department	To evaluate the adequacy of internal controls, program management, and compliance of the purchase card program, with a focus on card management, merchant oversight, and transaction analysis.	Continuous & Mandated Audits	Priority I	200	0%	Not Started	Internal
6	INFOR System Effectiveness and Workflow Integration	Innovation & Technology Services (ITS)	Assess the operational usability of the INFOR system, its effectiveness in supporting workflow integration, the accuracy of data entry and validation, system performance, user training, and ongoing support mechanisms.	One-time Project	Priority I	500	0%	Not Started	Outsourced
7	Proposition 218 Election Process Review	County Administrator	To assess the adequacy of internal controls in the County's Proposition 218 election process and adherence to state and county regulations.	One-time Project	Priority I	200	0%	Not Started	Internal
8	Risk Management Effectiveness	Human Resources Department	To evaluate the effectiveness of the County's risk management function in identifying, analyzing, and mitigating risks across departments, to determine whether it aligns with best practices and supports the County's strategic objectives and operational needs.	One-time Project	Priority II	400	0%	Not Started	Internal

Yolo County
Division of Internal Audit
FY2024-25 Work Plan (Proposed)

No.	Name of Engagement	Entity	Preliminary Objective	Type	Priority	Hours	% Complete	Status	Internal or Outsource
9	IT Disaster Recovery & Emergency Preparedness	Innovation & Technology Services (ITS)	To assess the adequacy and effectiveness of the county's IT disaster recovery and emergency preparedness plans for ensuring the protection and rapid restoration of critical systems and data.	One-time Project	Priority II	300	0%	Not Started	Outsourced
10	Competitive Bidding and Contract Compliance Review	Countywide	Review the County's competitive bidding process to determine the adequacy of contract compliance practices, with a focus on ensuring fairness, transparency, and alignment with procurement standards.	One-time Project	Priority II	600	0%	Not Started	Internal
11	AB 8 Property Tax Allocations	Department of Financial Services	To assess the accuracy and compliance of AB 8 property tax allocations among local agencies, ensuring distributions align with statutory formulas and historical shares.	One-time Project	Priority II	240	0%	Not Started	Internal
12	Policies and Procedures	Countywide	Assess the effectiveness of documented policies and procedures in promoting operational consistency, guiding employee actions, and ensuring compliance with organizational and regulatory standards.	One-time Project	Priority II	300	0%	Not Started	Internal
13	Asset Management Review	General Services Department	The objective of the engagement is to assess the Countywide asset management practices including needs identification, procurement, maintenance, and disposal.	One-time Project	Priority II	300	0%	Not Started	Outsourced
14	Wireless Communications	Countywide	Assess the management, usage, and security of the County's wireless communication devices to ensure cost-efficiency, proper oversight, and compliance with applicable policies and regulations.	One-time Project	Priority II	400	0%	Not Started	Internal
HHSA Workplan for FY 2024-25									
15	Food and Nutrition Services (FNS) Form 209 Validation Reviews for FY23 and FY24	Health & Human Services Agency (HHSA)	This engagement will include procedures to validate the Form FNS-209, Status of Claims Against Households (FNS-209) for the quarters ended June 30, 2023 and June 30, 2024.	HHSA Audits & Compliance Reviews	Priority I	80	45%	In-Progress	Outsourced
16	HHSA Administrative Branch Performance Audit	Health & Human Services Agency (HHSA)	This performance audit will review HHSA's Administrative Branch operations and function to develop recommendations for streamlining processes, expanding efficiencies, applying best practices, and performance monitoring.	HHSA Audits & Compliance Reviews	Priority I	400	0%	Not Started	Outsourced
17	Health & Human Services Agency Risk Assessment	Health & Human Services Agency (HHSA)	Conduct a comprehensive risk assessment of Yolo County's Health and Human Services Agency, identifying and evaluating key risks that could impact the agency's ability to achieve its objectives.	HHSA Audits & Compliance Reviews	Priority I	100	0%	Not Started	Internal
18	Increased Case Load	Health & Human Services Agency (HHSA)	The objective of the engagement is to evaluate the department's policies and procedures, staffing levels, case load volume and system databases to determine if they are sufficient to administer program benefits to citizens when requested and as expected.	HHSA Audits & Compliance Reviews	Priority I	300	0%	Not Started	Outsourced 28

Yolo County
Division of Internal Audit
FY2024-25 Work Plan (Proposed)

No.	Name of Engagement	Entity	Preliminary Objective	Type	Priority	Hours	% Complete	Status	Internal or Outsource
19	Subrecipient Monitoring Reviews (FY24)	Health & Human Services Agency (HHSA)	Perform subrecipient monitoring reviews for Yolo County Health and Human Services Agency as required by Code of Federal Regulations 2 CFR part 200.	HHSA Audits & Compliance Reviews	Priority I	300	0%	Not Started	Outsourced
20	SUD/SABG Contract Monitoring Reviews (FY24)	Health & Human Services Agency (HHSA)	Perform SUD/SABG contract monitoring reviews for Yolo County Health and Human Services Agency as required by Code of Federal Regulations 2 CFR part 200.	HHSA Audits & Compliance Reviews	Priority I	300	0%	Not Started	Outsourced
Continuous & Mandated Audits for FY 2024-25									
21	Treasury Cash Counts (Quarterly)	Department of Financial Services	Conduct quarterly cash counts as required by Government Code Section 26920(a)(1).	Continuous & Mandated Audits	Priority I	20	0%	Not Started	Internal
22	Juvenile Books & Accounts	Probation	Perform a review over the Probation Department's juvenile books and accounts in accordance with the Welfare & Institutions Code Section 275.	Continuous & Mandated Audits	Priority I	50	0%	Not Started	Internal
23	Fraud Hotline & Reporting	Countywide	Maintain hotline, investigate matters, and report to Board/Audit Subcommittee. Includes developing internal policies and procedures for investigations.	Continuous & Mandated Audits	Priority I	120	Ongoing	Ongoing	Internal
24	Ad Hoc Audits, Special Investigations, and Research	Internal Audit	Board of Supervisors and/or Executive management requests for specific audits, investigations or research.	Continuous & Mandated Audits	Priority I	80	Ongoing	Ongoing	Internal

Total Hours 6260

Yolo County Hours 3530 56%

Outsourced Hours 2730 44%

Priority I 3720 59%

Priority II 2540 41%



COUNTY OF YOLO
CALIFORNIA

Division of Internal Audit
Nathan Lugo, Internal Audit Manager

AUDIT SUBCOMMITTEE STAFF REPORT

DATE: September 12, 2024
ITEM: 11
FROM: Nathan Lugo, Internal Audit Manager
SUBJECT: Recommendation to Transition from IIA Red Book Standards to GAO Yellow Book Standards

Purpose

This staff report seeks the Audit Subcommittee’s approval to transition the Yolo County Division of Internal Audit (Internal Audit) from the International Standards for the Professional Practice of Internal Auditing, known as the “Red Book standards” and promulgated by the Institute of Internal Auditors (IIA), to the Government Accountability Office’s (GAO) Generally Accepted Government Auditing Standards (GAGAS), commonly referred to as the “Yellow Book standards.” This transition is proposed to better align our audit practices with government auditing, particularly in federal and state compliance work, financial reviews, and performance audits. The Yellow Book’s rule-based framework offers more prescriptive guidance, which is particularly advantageous for small audit shops. By adopting Yellow Book standards, Internal Audit will enhance its ability to conduct comprehensive performance audits, ensure compliance with state and federal regulations, and ultimately strengthen the quality, transparency, and credibility of our internal audit processes.

Background

Internal Audit previously adhered to Yellow Book standards, which provided a robust foundation for audit work, particularly in areas involving federal and state compliance, financial reviews, and performance audits. These standards were particularly effective for financial reviews, as they closely align with the American Institute of Certified Public Accountants (AICPA) standards, ensuring consistency and rigor in our audit practices.

Under the direction of the former Internal Audit Manager, Internal Audit transitioned to the IIA’s Red Book standards. The Red Book’s principles-based approach has served Internal Audit well, emphasizing governance, risk management, and control processes. However, as our audit responsibilities have expanded—particularly with an increased focus on performance audits and federal oversight—the need to return to the more prescriptive, rule-based Yellow Book standards has become evident. The Yellow Book is specifically designed for government auditing, with stringent requirements that ensure the consistency, objectivity, and transparency of audit processes, which are increasingly critical in our work.

Rationale for Transition

1. Alignment with Federal Requirements:

- The Yellow Book standards are designed to address the complexities of audits involving federal funds and compliance with federal regulations. The GAO's Yellow Book is more prescriptive than the Red Book, particularly in areas such as auditor independence, reporting, and evidence documentation, making it more suitable for auditing areas with significant federal oversight. As federal funding continues to play a growing role in many County programs, particularly in health and human services, this transition will ensure our audit practices meet federal expectations and requirements.

2. Rule-Based Framework for a Small Audit Shop:

- The Yellow Book's rule-based framework provides detailed guidance on audit procedures, which is particularly beneficial for a small audit team. With limited resources, clear and prescriptive standards are essential to maintaining consistency and ensuring the quality of audit processes. This structured approach will help streamline our operations, reduce ambiguity, and enhance the reliability of our audit outcomes.

3. Enhanced Focus on Performance Audits:

- Performance audits are increasingly critical as the County seeks to improve the efficiency, effectiveness, and economy of its programs. The Yellow Book places a strong emphasis on performance audits, offering specific guidance on how to assess program outcomes and identify areas for improvement. By adopting Yellow Book standards, Internal Audit will be better equipped to conduct these audits, providing deeper insights and more actionable recommendations to enhance County operations and support strategic decision-making.

4. Consistency with Peer Practices:

- Many government auditing entities, including state and federal agencies, adhere to Yellow Book standards. Transitioning to these standards will align Internal Audit with peer practices, facilitating collaboration and benchmarking against other government audit entities. This alignment is particularly beneficial in the context of audits that involve multiple levels of government oversight. Additionally, the Yellow Book standards require a more rigorous approach to peer reviews, with reviews every 3 years compared to the Red Book's 5-year requirement, further ensuring Internal Audit's adherence to best practices.

5. Increased Credibility and Transparency:

- The Yellow Book's rigorous requirements for documentation, evidence, and reporting will enhance the credibility of Internal Audit's findings. These standards demand a higher level of transparency in audit processes, which is crucial for maintaining public trust and ensuring accountability in government operations.

Implementation Plan

1. Training and Certification:

- Internal Audit will provide comprehensive training for all audit staff to ensure familiarity with Yellow Book standards. This will include online workshops and other professional development opportunities to build the necessary skills and knowledge. The Internal Audit Manager's prior experience with the City of Sacramento, which included a strong

understanding of Yellow Book standards, will be instrumental in mentoring the team and facilitating a smooth transition.

2. Revising Audit Methodologies:

- Internal Audit currently needs to update its departmental policies and procedures. As part of this effort, audit methodologies, procedures, and templates will be revised to align with Yellow Book requirements. This includes updating audit planning, fieldwork, and reporting processes to reflect the standards' emphasis on evidence-based and objective reporting. However, given the similarities in audit practices under each set of standards, these changes are likely to be seamless for county departments, the audit committee, and the public.

3. Phased Rollout:

- The transition will be implemented in phases, starting with audits that have significant federal funding components or are primarily performance-based. The goal is to fully transition all audits to Yellow Book standards within the next fiscal year. Progress will be closely monitored, with adjustments made as necessary to ensure a smooth and effective transition.

Recommendation

It is recommended that the Audit Subcommittee approve the recommendation to transition Internal Audit from Red Book standards to Yellow Book standards. This change will position Internal Audit to better meet federal compliance requirements, enhance the quality and impact of performance audits, and align with best practices in government auditing.

Fiscal Impact

The cost associated with this transition, including staff training and the revision of audit methodologies, is already included in Internal Audit's budget. There will be no additional costs associated with this change. These expenditures are considered a strategic investment in the long-term effectiveness and credibility of Internal Audit's function.

Conclusion

The transition to Yellow Book standards represents a strategic move to strengthen Internal Audit's ability to conduct audits that are rigorous, transparent, and aligned with federal requirements. Approval of this recommendation will ensure that Internal Audit continues to provide high-quality audit services that support the County's mission and objectives, enhancing public trust and accountability.

Attachments

- The Alignment Between the IIAs Red Book IPPF and the GAOs Yellow Book GAGAS.pdf

IIA Public Sector Audit Tool

The Alignment Between The IIA's Red Book (IPPF) and the GAO's Yellow Book (GAGAS)

Category: Professional

Purpose: How To



The Institute of
Internal Auditors



Executive Summary

The IIA and United States Government Accountability Office (GAO) are recognized nationally and internationally as leaders in promoting high quality audit work by issuing professional audit standards that provide a framework for conducting audits.

The purpose of this document is to align similar principles and key differences between the organizations' requirements and standards stemming from updates to both organizations' guidance documents as well as to highlight considerations for internal audit activities trying to conform to both sets of standards.

Introduction

Public sector auditors have various sources of guidance and direction to help them perform their jobs efficiently and effectively. Two prominent sets of standards include the International Professional Practices Framework (IPPF), issued by The IIA, and Generally Accepted Government Auditing Standards (GAGAS) issued by the GAO. Both serve a higher purpose and both generally coincide on major topics. There are instances of divergence, and that is where those auditors who consult both guides may need to follow the more prescriptive of the two and exercise professional judgment. Legal reasons may dictate which guidance should be followed.

Both frameworks are subject to regular review. In 2018, the GAO revised and released a new edition of GAGAS, also known as the Yellow Book. An additional technical update was released in April 2021. Other GAGAS guidance has been incorporated into this new edition; namely guidance on continuing professional education requirements and peer review work. The last full revision occurred in 2011. The most recent edition of the IPPF, including the *International Standards for the Professional Practice of Internal Auditing*, also known as the Red Book, was issued in 2017. Its last revision occurred in 2013. The IIA published a comparison of each entity's framework in 2012, comparing the 2011 GAGAS with the 2013 IPPF; and a Knowledge Brief in 2017 to incorporate the 2017 IPPF update.

Generally speaking, GAGAS covers specific issues such as performance auditing, financial engagements, attestation engagements, and continuing professional education requirements of practitioners. Also generally speaking, The IIA's IPPF is operationally oriented in the management of an internal audit function and execution elements of audits. For organizations either required to or that elect to use both GAGAS and The IIA's *Standards*, this alignment can enhance the quality of internal audit activities.

This fourth edition alignment document offers a side-by-side, topic-by-topic mapping or crosswalk for the benefit of public sector auditors and replaces all prior versions issued. This alignment document offers no analysis or comparing and contrasting the content of either; it simply aligns The IIA's *Standards* and Code of Ethics with corresponding GAGAS performance audit requirements. Some GAO Application Guidance elements were also mapped because they were singularly relevant but for the most part, only the requirements were mapped. The alignment matrix appears in the order of the IPPF *Standards*.

Major changes to the 2018 edition of GAGAS relate to format and coverage with the inclusion of elements that previously had dedicated publications. Content that was formerly included in appendices is now integrated within the document and referred to as Application Guidance. From the format perspective, that aligns with the Red Book's Interpretations of each standard. As stated earlier, the Application Guidance, Interpretations, and Supplemental Guidance are not included in this alignment matrix.

The IPPF and GAGAS are organized differently, and utilize different naming conventions:

The IPPF is the conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative guidance is composed of two categories – (1) mandatory and (2) recommended. Mandatory guidance includes the:

- Core Principles for the Professional Practice of Internal Auditing.
- Definition of Internal Auditing.
- Code of Ethics.
- *International Standards for the Professional Practice of Internal Auditing.*

Recommended guidance includes:

- Implementation Guidance.
- Supplemental Guidance.

GAGAS is organized by chapter:

- Chapter 1: Foundation and Principles for the Use and Application of Government Auditing Standards.
- Chapter 2: General Requirements for Complying with Government Auditing Standards.
- Chapter 3: Ethics, Independence, and Professional Judgment.
- Chapter 4: Competence and Continuing Professional Education.
- Chapter 5: Quality Control and Peer Review.
- Chapter 8: Fieldwork Standards for Performance Audits.
- Chapter 9: Reporting Standards for Performance Audits.
- *Chapter 6: Standards for Financial Audits and Chapter 7: Standards for Attestation Engagements and Review of Financial Statements are not included in this alignment document as these are not engagements typically performed by internal audit functions.*

For a high level but succinct overview of the both The IIA's 2017 Red Book and the GAGAS 2018 Yellow Book, The IIA published a Public Sector Knowledge Brief, [Implementing the New Government Auditing Standards](#), which provides a quick refresher on key aspects of the 2018 Yellow Book. It also dives into some of the critical changes and clarifications affecting internal auditors, including independence, with a specific focus on impact to internal audit and inspector general functions, peer review updated requirements, definitions of waste and abuse and requirements for reporting, and expanded focus and clarification on internal control when conducting performance audits.

For additional information on The IIA, please visit our website at: <https://na.theiia.org/Pages/IIAHome.aspx>.

For additional information on the Government Accountability Office, please visit their website at: <https://www.gao.gov/>.

The IIA's International Professional Practices Framework (The Red Book)	Government Accountability Office's Government Audit Standards (GAGAS, or The Yellow Book)	Considerations to Comply with Both Sets of Standards
<p>The purpose of the <i>Standards</i> is to:</p> <ol style="list-style-type: none"> 1. Guide adherence with the mandatory elements of the International Professional Practices Framework. 2. Provide a framework for performing and promoting a broad range of value-added internal auditing services. 3. Establish the basis for the evaluation of internal audit performance. 4. Foster improved organizational processes and operations. 	<p>1.02 The concept of accountability for use of public resources and government authority is key to our nation's governing processes. Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, and ethically within the context of the statutory boundaries of the specific government program.</p> <p>1.05 Government auditing is essential in providing accountability to legislators, oversight bodies, those charged with governance, and the public. GAGAS engagements provide an independent, objective, nonpartisan assessment of the stewardship, performance, or cost of government policies, programs, or operations, depending upon the type and scope of the engagement.</p>	<p>Audit activities that follow both The IIA's IPPF and GAGAS in audit work should conduct such work in accordance with both sets of audit standards.</p>
<p>The <i>Standards</i> are a set of principles-based, mandatory requirements consisting of:</p> <ul style="list-style-type: none"> • Statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance that are internationally applicable at organizational and individual levels. • Interpretations clarifying terms or concepts within the <i>Standards</i>. 	<p>Excerpted from Page 1: The professional standards presented in this 2018 revision of Government Auditing Standards (known as the Yellow Book) provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help improve government operations and services. These standards, commonly referred to as generally accepted government auditing standards (GAGAS), provide the foundation for government auditors to lead by example in the areas of independence, transparency, accountability, and quality through the audit process.</p>	
<p>The <i>Standards</i>, together with the Code of Ethics, encompass all mandatory elements</p>	<p>1.06 The professional standards and guidance contained in this document provide a framework</p>	<p>Audit activities may consider following GAGAS when conducting engagements</p>

The IIA's International Professional Practices Framework (The Red Book)	Government Accountability Office's Government Audit Standards (GAGAS, or The Yellow Book)	Considerations to Comply with Both Sets of Standards
<p>of the International Professional Practices Framework; therefore, conformance with the Code of Ethics and the <i>Standards</i> demonstrates conformance with all mandatory elements of the International Professional Practices Framework.</p>	<p>for conducting high-quality engagements with competence, integrity, objectivity, and independence. Auditors of government entities, entities that receive government awards, and other entities, as required by law or regulation or as they elect, may use these standards. Overall, GAGAS contains standards for engagements comprising individual requirements that are identified by terminology as discussed in paragraphs 2.02 through 2.10. GAGAS contains requirements and guidance dealing with ethics, independence, auditors' professional judgment and competence, quality control, peer review, conducting the engagement, and reporting.</p> <p>1.11 Even if not required to do so, auditors may find it useful to follow GAGAS in conducting engagements pertaining to federal, state, and local government programs as well as engagements pertaining to state and local government awards that contractors, nonprofit entities, and other nongovernmental entities administer. Though not formally required to do so, many audit organizations, both in the United States and in other countries, voluntarily follow GAGAS.</p> <p>1.12 GAGAS provides standards that are used by a wide range of auditors and audit organizations that audit government entities, entities that receive government awards, and other entities. These auditors and audit organizations may also be subject to additional requirements unique to their environments. Examples of the various types of</p>	<p>pertaining to government programs and awards as stated in 1.11, but should also be aware of other considerations as stated in 1.12.</p>

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	<p>users who may be required or may elect to use GAGAS include the following:</p> <ul style="list-style-type: none"> a. Contract auditors: audit organizations that specialize in conducting engagements pertaining to government acquisitions and contract administration. b. Certified public accounting firms: public accounting organizations in the private sector that provide audit, attestation, or review services under contract to government entities or recipients of government funds. c. Federal inspectors general: government audit organizations within federal agencies that conduct engagements and investigations relating to the programs and operations of their agencies and issue reports both to agency management and to third parties external to the audited entity. d. Federal agency internal auditors: internal government audit organizations associated with federal agencies that conduct engagements and investigations relating to the programs and operations of their agencies. e. Municipal auditors: elected or appointed officials in government audit organizations in the United States at the city, county, and other local government levels. f. State auditors: elected or appointed officials in audit organizations in the governments of the 50 states, the District of Columbia, and the U.S. territories. g. Supreme audit institutions: national government audit organizations, in the United States or elsewhere, typically headed by a comptroller general or auditor general. 	

The IIA's International Professional Practices Framework (The Red Book)	Government Accountability Office's Government Audit Standards (GAGAS, or The Yellow Book)	Considerations to Comply with Both Sets of Standards
<p>SHOULD vs. MUST: The <i>Standards</i> employ terms as defined specifically in the Glossary. To understand and apply the <i>Standards</i> correctly, it is necessary to consider the specific meanings from the Glossary. Furthermore, the <i>Standards</i> use the word "must" to specify an unconditional requirement and the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.</p>	<p>2.02 GAGAS uses two categories of requirements, identified by specific terms, to describe the degree of responsibility they impose on auditors and audit organizations:</p> <p>a. Unconditional requirements: Auditors and audit organizations must comply with an unconditional requirement in all cases where such requirement is relevant. GAGAS uses <i>must</i> to indicate an unconditional requirement.</p> <p>b. Presumptively mandatory requirements: Auditors and audit organizations must comply with a presumptively mandatory requirement in all cases where such a requirement is relevant except in rare circumstances discussed in paragraphs 2.03, 2.04, and 2.08. GAGAS uses <i>should</i> to indicate a presumptively mandatory requirement.</p> <p>2.03 In rare circumstances, auditors and audit organizations may determine it necessary to depart from a relevant presumptively mandatory requirement. In such rare circumstances, auditors should perform alternative procedures to achieve the intent of that requirement.</p> <p>2.04 If, in rare circumstances, auditors judge it necessary to depart from a relevant presumptively mandatory requirement, they must document their justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement.</p>	<p>Audit activities should pay attention to specific language to ensure they are adequately following required standards from each set of standards followed.</p>

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	<p>2.05 Auditors should have an understanding of the entire text of applicable chapters of GAGAS, including application guidance, and any amendments that GAO issued, to understand the intent of the requirements and to apply the requirements properly.</p> <p>2.06 Auditors should consider applicable GAO-issued GAGAS interpretive guidance in conducting and reporting on GAGAS engagements.</p>	
<p>OTHER AUTHORITATIVE BODIES: If the <i>Standards</i> are used in conjunction with requirements issued by other authoritative bodies, internal audit communications may also cite the use of other requirements, as appropriate. In such a case, if the internal audit activity indicates conformance with the <i>Standards</i> and inconsistencies exist between the <i>Standards</i> and other requirements, internal auditors and the internal audit activity must conform with the <i>Standards</i> and may conform with the other requirements if such requirements are more restrictive.</p>	<p>1.09 The following are some of the laws, regulations, and other authoritative sources that require the use of GAGAS:</p> <p>a. The Inspector General Act of 1978, as amended (5 U.S.C. App.), requires that the federal inspectors general appointed under that act comply with GAGAS for audits of federal establishments, organizations, programs, activities, and functions. The act further states that the inspectors general shall take appropriate steps to assure that any work performed by nonfederal auditors complies with GAGAS.</p> <p>b. The Chief Financial Officers Act of 1990 (Public Law 101-576), as expanded by the Government Management Reform Act of 1994 (Public Law 103-356), requires that GAGAS be followed in audits of major executive branch departments' and agencies' financial statements. The Accountability of Tax Dollars Act of 2002 (Public Law 107-289) generally extends this requirement to most executive agencies not subject to the Chief Financial Officers Act.</p>	<p>Audit activities should be aware of and consider any legal requirements for following a specific set of standards in conducting audit work.</p>

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	<p>c. The Single Audit Act Amendments of 1996 (Public Law 104-156) requires that GAGAS be followed in audits of state and local governments and nonprofit entities that receive federal awards. Subpart F of OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 C.F.R. part 200), which provides the government-wide guidelines and policies on conducting audits to comply with the Single Audit Act, reiterates the requirement to use GAGAS.</p> <p>1.10 Other laws, regulations, or authoritative sources may require the use of GAGAS. For example, auditors at the state and local government levels may be required by state and local laws and regulations to follow GAGAS. Also, auditors may be required by the terms of an agreement or contract to follow GAGAS. Auditors may also be required to follow GAGAS by federal audit guidelines pertaining to program requirements. Being aware of such other laws, regulations, or authoritative sources may assist auditors in performing their work in accordance with the required standards.</p> <p>2.11 When auditors cite compliance with both GAGAS and another set of standards, such as those listed in paragraphs 2.13, 2.15, 6.01, and 7.01, auditors should refer to paragraph 2.17 for the requirements for citing compliance with GAGAS. In addition to citing GAGAS, auditors may also cite the use of other standards in their reports when they have also met the requirements</p>	

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	for citing compliance with the other standards. Auditors should refer to the other set of standards for the basis for citing compliance with those standards.	
<p>Code of Ethics The purpose of the Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing.</p> <p>This Code of Ethics applies to both entities and individuals that perform internal audit services.</p> <p>Internal Auditors are expected to apply and uphold the following principles:</p> <p>1. Integrity The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.</p> <p>2. Objectivity Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.</p> <p>3. Confidentiality Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.</p>	<p>3.02 The ethical principles presented in this section provide the foundation, discipline, and structure, as well as the environment, that influence the application of GAGAS.</p> <p>3.04 Performing audit work in accordance with ethical principles is a matter of 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, and 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.</p> <p>3.05 Other ethical requirements or codes of professional conduct may also be applicable to auditors who conduct engagements in accordance with GAGAS. For example, individual auditors who are members of professional organizations or are licensed or certified professionals may also be subject to ethical requirements of those professional organizations or licensing bodies. Auditors employed by government entities may also be subject to government ethics laws and regulations.</p>	<p>Audit activities following both IIA and GAGAS standards are expected to apply and uphold the following principles to meet the requirements of both:</p> <ol style="list-style-type: none"> 1. Personal and organizational responsibility. 2. Integrity. 3. Objectivity. 4. Confidentiality. 5. Competency. 6. The public interest. 7. Proper use of government information, resources, and positions. 8. Professional behavior.

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<p>4. Competency Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.</p>	<p>3.06 The ethical principles that guide the work of auditors who conduct engagements in accordance with GAGAS are</p> <ul style="list-style-type: none"> a. the public interest; b. integrity; c. objectivity; d. proper use of government information, resources, and positions; and e. professional behavior. <p>3.07 The public interest is defined as the collective well-being of the community of people and entities that the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities helps auditors serve the public interest and honor the public trust. The principle of the public interest is fundamental to the responsibilities of auditors and critical in the government environment.</p> <p>3.08 A distinguishing mark of an auditor is acceptance of responsibility to serve the public interest. This responsibility is critical when auditing in the government environment. GAGAS embodies the concept of accountability for public resources, which is fundamental to serve the public interest.</p> <p>3.09 Public confidence in government is maintained and strengthened by auditors performing their professional responsibilities with integrity. Integrity includes auditors performing their work with an attitude that is objective, fact-based, nonpartisan, and nonideological with</p>	

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	<p>regard to audited entities and users of the audit reports. Within the constraints of applicable confidentiality laws, regulations, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the engagement are expected to be honest, candid, and constructive.</p> <p>3.10 Making decisions consistent with the public interest of the program or activity under audit is an important part of the principle of integrity. In discharging their professional responsibilities, auditors may encounter conflicting pressures from management of the audited entity, various levels of government, and other likely users. Auditors may also encounter pressures to inappropriately achieve personal or organizational gain. In resolving those conflicts and pressures, acting with integrity means that auditors place priority on their responsibilities to the public interest.</p>	
<p>1000 – Purpose, Authority, and Responsibility The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the <i>Standards</i>, and the Definition of Internal Auditing). The chief audit executive must periodically review the</p>		

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<p>internal audit charter and present it to senior management and the board for approval.</p> <p>1000.A1 – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.</p>		
<p>1010 – Recognizing Mandatory Guidance in the Internal Audit Charter The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the <i>Standards</i>, and the Definition of Internal Auditing must be recognized in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board.</p>	<p>3.03 Because auditing is essential to government accountability to the public, the public expects audit organizations and auditors who perform their work in accordance with GAGAS to follow ethical principles. Management of the audit organization sets the tone for ethical behavior throughout the organization by maintaining an ethical culture, clearly communicating acceptable behavior and expectations to each employee, and creating an environment that reinforces and encourages ethical behavior throughout all levels of the organization. The ethical tone maintained and demonstrated by management and personnel is an essential element of a positive ethical environment for the audit organization.</p>	<p>For audit activities following both IIA and GAGAS standards, ethical expectations and standards must be incorporated into an internal audit charter to be in compliance with IIA Standard 1010.</p>
<p>1100 – Independence and Objectivity The internal audit activity must be independent, and internal auditors must be objective in performing their work.</p>	<p>3.18 In all matters relating to the GAGAS engagement, auditors and audit organizations must be independent from an audited entity.</p> <p>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 and thus are not capable of exercising objective and</p>	<p>Audit activities following both IIA and GAGAS standards should comply with the GAGAS conceptual framework and requirements for nonaudit services, Chapter 3.</p> <p><i>Audit Organizations in Government Entities</i> should also ensure they are familiar with</p>

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	<p>impartial judgment on all issues associated with conducting the engagement and reporting on the work.</p> <p>3.20 Except under the limited circumstances discussed in paragraphs 3.66 and 3.67, auditors and audit organizations should be independent from an audited entity during a. any period of time that falls within the period covered by the financial statements or subject matter of the engagement and b. the period of professional engagement.</p> <p>3.21 Independence comprises the following: a. Independence of mind: The state of mind that permits the conduct of an engagement without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism. b. Independence in appearance: The absence of circumstances that would cause a reasonable and informed third party to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the engagement team had been compromised.</p> <p>3.27 Auditors should apply the conceptual framework at the audit organization, engagement team, and individual auditor levels to a. identify threats to independence; b. evaluate the significance of the threats identified, both individually and in the aggregate; and</p>	<p>and consider the application guidance in GAGAS 3.52 through 3.56.</p> <p><i>Internal Auditors</i> should ensure they are familiar with and consider the application guidance in GAGAS 3.57 and 3.58.</p>

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	<p>c. apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level.</p> <p>3.28 Auditors should reevaluate threats to independence, including any safeguards applied, whenever the audit organization or the auditors become aware of new information or changes in facts and circumstances that could affect whether a threat has been eliminated or reduced to an acceptable level.</p> <p>3.29 Auditors should use professional judgment when applying the conceptual framework.</p> <p>3.30 Auditors should evaluate the following broad categories of threats to independence when applying the GAGAS conceptual framework:</p> <p>a. Self-interest threat: The threat that a financial or other interest will inappropriately influence an auditor's judgment or behavior.</p> <p>b. Self-review threat: The threat that an auditor or audit organization that has provided nonaudit services will not appropriately evaluate the results of previous judgments made or services provided as part of the nonaudit services when forming a judgment significant to a GAGAS engagement.</p> <p>c. Bias threat: The threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective.</p> <p>d. Familiarity threat: The threat that aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close</p>	

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	<p>family member, will lead an auditor to take a position that is not objective.</p> <p>e. Undue influence threat: The threat that influences or pressures from sources external to the audit organization will affect an auditor's ability to make objective judgments.</p> <p>g. Structural threat: The threat that an audit organization's placement within a government entity, in combination with the structure of the government entity being audited, will affect the audit organization's ability to perform work and report results objectively.</p> <p>3.31 Auditors should determine whether identified threats to independence are at an acceptable level or have been eliminated or reduced to an acceptable level, considering both qualitative and quantitative factors to determine the significance of a threat.</p> <p>3.32 When auditors determine that threats to independence are not at an acceptable level, the auditors should determine whether appropriate safeguards can be applied to eliminate the threats or reduce them to an acceptable level.</p> <p>3.33 In cases where auditors determine that threats to independence require the application of safeguards, auditors should document the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.</p> <p>3.34 If auditors initially identify a threat to independence after the audit report is issued,</p>	

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	<p>auditors should evaluate the threat's effect on the engagement and on GAGAS compliance. If the auditors determine that the newly identified threat's effect on the engagement would have resulted in the audit report being different from the report issued had the auditors been aware of it, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the audit organization requiring or arranging for the engagements, and other known users, so that they do not continue to rely on findings or conclusions that were affected by the threat to independence. If auditors previously posted the report to their publicly accessible website, they should remove the report and post a public notification that the report was removed. The auditors should then determine whether to perform the additional engagement work necessary to reissue the report, including any revised findings or conclusions, or to repost the original report if the additional engagement work does not result in a change in findings or conclusions.</p> <p>3.97 Auditors should conclude that providing or supervising ongoing monitoring procedures over an entity's system of internal control impairs independence because the management participation threat created is so significant that no safeguards could reduce the threat to an acceptable level.</p>	

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	<p>3.98 Separate evaluations are sometimes provided as a nonaudit service. When providing separate evaluations as nonaudit services, auditors should evaluate the significance of the threat created by performing separate evaluations and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.</p> <p>8.82 If the engagement team intends to use the work of a specialist, it should assess the independence of the specialist.</p> <p>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.</p>	
<p>1110 – Organizational Independence The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.</p> <p>1110.A1 - The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit</p>	<p>3.18 In all matters relating to the GAGAS engagement, auditors and audit organizations must be independent from an audited entity.</p> <p>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 and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the engagement and reporting on the work.</p>	<p>Audit activities following both IIA and GAGAS standards must comply with IIA Standard 1110 by ensuring the chief audit executive reports to a level within the organization that allows the internal audit activity to fulfill its responsibilities and maintain the organizational independence of the internal audit activity.</p> <p>To ensure compliance with GAGAS 3.60, steps must be taken to mitigate or remove threats to independence – even including declining an engagement.</p>

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<p>executive must disclose such interference to the board and discuss the implications.</p>	<p>3.20 Except under the limited circumstances discussed in paragraphs 3.66 and 3.67, auditors and audit organizations should be independent from an audited entity during</p> <ul style="list-style-type: none"> a. any period of time that falls within the period covered by the financial statements or subject matter of the engagement and b. the period of professional engagement. <p>3.59 Auditors should conclude that independence is impaired if no safeguards have been effectively applied to eliminate an unacceptable threat or reduce it to an acceptable level.</p> <p>3.60 When auditors conclude that independence of the engagement team or the audit organization is impaired under paragraph 3.59, auditors should decline to accept an engagement or should terminate an engagement in progress (except in circumstances discussed in paragraphs 3.25 or 3.84).</p> <p>5.09 At least annually, the audit organization should obtain written affirmation of compliance with its policies and procedures on independence from all of its personnel required to be independent.</p>	
<p>1111 – Direct Interaction with the Board The chief audit executive must communicate and interact directly with the board.</p>		<p>To ensure compliance with IIA Standard 1111 in the public sector, the chief audit executive must interact directly with the audit committee.</p>
<p>1112 – Chief Audit Executive Roles Beyond Internal Auditing</p>	<p>3.73 Before auditors agree to provide nonaudit services to an audited entity that the audited entity's management requested and that could</p>	<p>Audit activities following both IIA and GAGAS standards should conduct their work paying particular attention to the</p>

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<p>Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.</p>	<p>create a threat to independence, either by themselves or in aggregate with other nonaudit services provided, with respect to any GAGAS engagement they conduct, auditors should determine that the audited entity has designated an individual who possesses suitable skill, knowledge, or experience and that the individual understands the services to be provided sufficiently to oversee them.</p> <p>3.74 Auditors should document consideration of management's ability to effectively oversee nonaudit services to be provided.</p> <p>3.75 In cases where the audited entity is unable or unwilling to assume these responsibilities (for example, the audited entity does not have an individual with suitable skill, knowledge, or experience to oversee the nonaudit services provided, or is unwilling to perform such functions because of lack of time or desire), auditors should conclude that the provision of these services is an impairment to independence.</p> <p>3.76 Auditors providing nonaudit services to audited entities should obtain agreement from audited entity management that audited entity management performs the following functions in connection with the nonaudit services: a. assumes all management responsibilities; b. oversees the services, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge or experience; c. evaluates the adequacy and results of the</p>	<p>more prescriptive GAGAS standards in this area.</p>

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	<p>services provided; and d. accepts responsibility for the results of the services.</p> <p>3.77 In connection with nonaudit services, auditors should establish and document their understanding with the audited entity's management or those charged with governance, as appropriate, regarding the following: a. objectives of the nonaudit service, b. services to be provided, c. audited entity's acceptance of its responsibilities as discussed in paragraph 3.76, d. the auditors' responsibilities, and e. any limitations on the provision of nonaudit services.</p> <p>3.78 Auditors should conclude that management responsibilities that the auditors perform for an audited entity are impairments to independence. If the auditors were to assume management responsibilities for an audited entity, the management participation threats created would be so significant that no safeguards could reduce them to an acceptable level.</p> <p>3.87 Auditors should conclude that the following services involving preparation of accounting records impair independence with respect to an audited entity:</p> <ul style="list-style-type: none"> a. determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval; b. authorizing or approving the entity's transactions; and 	

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	<p>c. preparing or making changes to source documents without management approval.</p> <p>3.88 Auditors should conclude that preparing financial statements in their entirety from a client-provided trial balance or underlying accounting records creates significant threats to auditors' independence, and should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level in accordance with paragraph 3.33 or decline to provide the services.</p> <p>3.89 Auditors should identify as threats to independence any services related to preparing accounting records and financial statements, other than those defined as impairments to independence in paragraph 3.87 and significant threats in paragraph 3.88. These services include</p> <ul style="list-style-type: none"> a. recording transactions for which management has determined or approved the appropriate account classification, or posting coded transactions to an audited entity's general ledger; b. preparing certain line items or sections of the financial statements based on information in the trial balance; c. posting entries that an audited entity's management has approved to the entity's trial balance; and d. preparing account reconciliations that identify reconciling items for the audited entity management's evaluation. <p>3.97 Auditors should conclude that providing or supervising ongoing monitoring procedures over an entity's system of internal control impairs</p>	

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	<p>independence because the management participation threat created is so significant that no safeguards could reduce the threat to an acceptable level.</p> <p>3.98 Separate evaluations are sometimes provided as a nonaudit service. When providing separate evaluations as nonaudit services, auditors should evaluate the significance of the threat created by performing separate evaluations and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.</p> <p>3.102 Auditors should conclude that providing information technology (IT) services to an audited entity that relate to the period under audit impairs independence if those services include</p> <ul style="list-style-type: none"> a. designing or developing an audited entity's financial information system or other IT system that will play a significant role in the management of an area of operations that is or will be the subject matter of an engagement; b. making other than insignificant modifications to source code underlying an audited entity's existing financial information system or other IT system that will play a significant role in the management of an area of operations that is or will be the subject matter of an engagement; c. supervising audited entity personnel in the daily operation of an audited entity's information system; or d. operating an audited entity's network, financial information system, or other IT system that will 	

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	<p>play a significant role in the management of an area of operations that is or will be the subject matter of an engagement.</p> <p>3.104 Auditors should conclude that independence is impaired if an audit organization provides appraisal, valuation, or actuarial services to an audited entity when (1) the services involve a significant degree of subjectivity and (2) the results of the service, individually or when combined with other valuation, appraisal, or actuarial services, are material to the audited entity's financial statements or other information on which the audit organization is reporting.</p> <p>3.106 Auditors should conclude that providing certain other nonaudit services impairs an external auditor's independence with respect to an audited entity. These activities include the following:</p> <ul style="list-style-type: none"> a. Advisory service <ul style="list-style-type: none"> (1) Assuming any management responsibilities b. Benefit plan administration <ul style="list-style-type: none"> (1) Making policy decisions on behalf of management (2) Interpreting the provisions in a plan document for a plan participant on behalf of management without first obtaining management's concurrence (3) Making disbursements on behalf of the plan (4) Having custody of the plan's assets (5) Serving in a fiduciary capacity, as defined under the Employee Retirement Income Security Act of 197424 c. Business risk consulting <ul style="list-style-type: none"> (1) Making or approving business risk decisions 	

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	<p>(2) Presenting business risk considerations to those charged with governance on behalf of management</p> <p>d. Executive or employee recruiting</p> <p>(1) Committing the audited entity to employee compensation or benefit arrangements</p> <p>(2) Hiring or terminating the audited entity's employees</p> <p>e. Investment advisory or management</p> <p>(1) Making investment decisions on behalf of management or otherwise having discretionary authority over an audited entity's investments</p> <p>(2) Executing a transaction to buy or sell an audited entity's investments</p> <p>(3) Having custody of an audited entity's assets, such as taking temporary possession of securities</p>	
<p>1120 – Individual Objectivity Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.</p>	<p>3.11 Auditors' objectivity in discharging their professional responsibilities is the basis for the credibility of auditing in the government sector. Objectivity includes independence of mind and appearance when conducting engagements, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public. The concepts of objectivity and independence are closely related. Independence impairments affect auditors' objectivity.</p>	<p>Audit activities following both IIA and GAGAS standards should ensure compliance with GAGAS by ensuring a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public.</p>
<p>1130 – Impairment to Independence or Objectivity If independence or objectivity is impaired in fact or appearance, the details of the</p>	<p>3.31 Auditors should determine whether identified threats to independence are at an acceptable level or have been eliminated or reduced to an acceptable level, considering both qualitative and</p>	<p>Audit activities following both IIA and GAGAS standards should conduct their work paying particular attention to the</p>

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<p>impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.</p> <p>1130.A1 – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.</p> <p>1130.A2 – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.</p> <p>1130.A3 – The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.</p>	<p>quantitative factors to determine the significance of a threat.</p> <p>3.32 When auditors determine that threats to independence are not at an acceptable level, the auditors should determine whether appropriate safeguards can be applied to eliminate the threats or reduce them to an acceptable level.</p> <p>3.33 In cases where auditors determine that threats to independence require the application of safeguards, auditors should document the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.</p> <p>3.34 If auditors initially identify a threat to independence after the audit report is issued, auditors should evaluate the threat's effect on the engagement and on GAGAS compliance. If the auditors determine that the newly identified threat's effect on the engagement would have resulted in the audit report being different from the report issued had the auditors been aware of it, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the audit organization requiring or arranging for the engagements, and other known users, so that they do not continue to rely on findings or conclusions that were affected by the threat to independence. If auditors previously posted the report to their publicly accessible website, they should remove the report and post a public</p>	<p>more prescriptive GAGAS standards in this area.</p> <p>Auditors should determine whether identified threats to independence are at an acceptable level or have been eliminated or reduced to an acceptable level.</p> <p>When auditors determine that threats to independence are not at an acceptable level, the auditors should:</p> <ul style="list-style-type: none"> ▪ Determine whether appropriate safeguards can be applied to eliminate the threats or reduce them to an acceptable level. ▪ Document the threats and safeguards used. ▪ Conclude that independence is impaired if no safeguards have been effectively applied to eliminate an unacceptable threat or reduce it to an acceptable level. ▪ Decline to accept an engagement or terminate an engagement in progress if no safeguards can be applied to eliminate or reduce threats. ▪ Determine if providing a nonaudit service would create a threat to independence.

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	<p>notification that the report was removed. The auditors should then determine whether to perform the additional engagement work necessary to reissue the report, including any revised findings or conclusions, or to repost the original report if the additional engagement work does not result in a change in findings or conclusions.</p> <p>3.59 Auditors should conclude that independence is impaired if no safeguards have been effectively applied to eliminate an unacceptable threat or reduce it to an acceptable level.</p> <p>3.60 When auditors conclude that independence of the engagement team or the audit organization is impaired under paragraph 3.59, auditors should decline to accept an engagement or should terminate an engagement in progress (except in circumstances discussed in paragraphs 3.25 or 3.84).</p> <p>3.64 Before auditors agree to provide a nonaudit service to an audited entity, they should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS engagement they conduct.</p> <p>3.83 Auditors who previously provided nonaudit services for an entity that is a prospective subject of an engagement should evaluate the effect of those nonaudit services on independence before</p>	

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	<p>agreeing to conduct a GAGAS engagement. If auditors provided a nonaudit service in the period to be covered by the engagement, they should (1) determine if GAGAS expressly prohibits the nonaudit service; (2) if audited entity management requested the nonaudit service, determine whether the skills, knowledge, and experience of the individual responsible for overseeing the nonaudit service were sufficient; and (3) determine whether a threat to independence exists and address any threats noted in accordance with the conceptual framework.</p> <p>3.84 Auditors in a government entity may be required to provide a nonaudit service that impairs the auditors' independence with respect to a required engagement. If, because of constitutional or statutory requirements over which they have no control, the auditors can neither implement safeguards to reduce the resulting threat to an acceptable level nor decline to provide or terminate a nonaudit service that is incompatible with engagement responsibilities, auditors should disclose the nature of the threat that could not be eliminated or reduced to an acceptable level and modify the GAGAS compliance statement as discussed in paragraph 2.17b accordingly. Determining how to modify the GAGAS compliance statement in these circumstances is a matter of professional judgment.</p> <p>3.90 Auditors should evaluate the significance of threats to independence created by providing any services discussed in paragraph 3.89 and should</p>	

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	<p>document the evaluation of the significance of such threats.</p> <p>3.96 Internal audit assistance services involve assisting an entity in performing its internal audit activities. Auditors should conclude that the following internal audit assistance activities impair an external auditor's independence with respect to an audited entity:</p> <ul style="list-style-type: none"> a. setting internal audit policies or the strategic direction of internal audit activities; b. performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges; and c. determining the scope of the internal audit function and resulting work. 	
<p>1200 – Proficiency and Due Professional Care Engagements must be performed with proficiency and due professional care.</p>	<p>3.29 Auditors should use professional judgment when applying the conceptual framework.</p> <p>3.109 Auditors must use professional judgment in planning and conducting the engagement and in reporting the results.</p> <p>4.02 The audit organization's management must assign auditors to conduct the engagement who before beginning work on the engagement collectively possess the competence needed to address the engagement objectives and perform their work in accordance with GAGAS.</p> <p>4.03 The audit organization's management must assign auditors who before beginning work on the engagement possess the competence needed for their assigned roles.</p>	

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	<p>4.04 The audit organization should have a process for recruitment, hiring, continuous development, assignment, and evaluation of personnel so that the workforce has the essential knowledge, skills, and abilities necessary to conduct the engagement. The nature, extent, and formality of the process will depend on various factors, such as the size of the audit organization, its structure, and its work.</p>	
<p>1210 – Proficiency Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.</p> <p>1210.A1 – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.</p> <p>1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.</p> <p>1210.A3 – Internal auditors must have sufficient knowledge of key information</p>	<p>4.02 The audit organization's management must assign auditors to conduct the engagement who before beginning work on the engagement collectively possess the competence needed to address the engagement objectives and perform their work in accordance with GAGAS.</p> <p>5.15 The audit organization should establish policies and procedures for human resources that are designed to provide the organization with reasonable assurance that it has personnel with the competence to conduct GAGAS engagements in accordance with professional standards and applicable legal and regulatory requirements.</p> <p>8.63 Understanding information systems controls is important when information systems are used extensively throughout the program under audit and the fundamental business processes related to the audit objectives rely on information systems. Information systems controls consist of those internal controls that depend on information systems a. Information systems general controls (entity-wide, system, and application levels) are the policies and procedures that apply to all or a</p>	<p>Audit activities following both IIA and GAGAS standards should pay particular attention to GAGAS 5.15 by having policies and procedures in place to ensure that the organization and internal auditors possess or obtain the knowledge, skills, and other competencies needed to conduct engagements in accordance with professional standards and applicable legal and regulatory requirements.</p>

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<p>technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.</p>	<p>large segment of an entity's information systems. General controls help ensure the proper operation of information systems by creating the environment for proper operation of application controls. General controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning. b. Application controls, sometimes referred to as business process controls, are those controls that are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing. Application controls include controls over input, processing, output, master file, interface, and the data management system. c. User controls are portions of controls that are performed by people interacting with information systems controls. A user control is an information systems control if its effectiveness depends on information systems processing or the reliability (accuracy, completeness, and validity) of information processed by information systems.</p> <p>8.64 An entity's use of information systems controls may be extensive; however, auditors are primarily interested in those information systems controls that are significant to the audit objectives. Information systems controls are significant to the audit objectives if auditors determine that it is necessary to evaluate the effectiveness of these controls in order to obtain sufficient, appropriate evidence. For example, an audit objective may</p>	

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	<p>involve evaluating the effectiveness of information systems controls related to certain systems, facilities, or entities.</p> <p>8.65 Audit procedures to evaluate the effectiveness of significant information systems controls include (1) gaining an understanding of the system as it relates to the information and (2) identifying and evaluating the general, application, and user controls that are critical to providing assurance over the reliability of the information required for the audit.</p> <p>8.66 The evaluation of information systems controls may be done in conjunction with the auditors' consideration of internal control within the context of the audit objectives or as a separate audit objective or audit procedure, depending on the audit's objectives. Depending on the significance of information systems controls to the audit objectives, the extent of audit procedures to obtain such an understanding may be limited or extensive. In addition, the nature and extent of audit risk related to information systems controls are affected by the hardware and software used, the configuration of the entity's systems and networks, and the entity's information systems strategy.</p> <p>8.67 The following factors may assist auditors in determining the significance of information system controls to the audit objectives: a. The extent to which internal controls that are significant to the audit depend on the reliability of information</p>	

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	<p>processed or generated by information systems.</p> <p>b. The availability of evidence outside the information system to support the findings and conclusions. It may not be possible for auditors to obtain sufficient, appropriate evidence without evaluating the effectiveness of relevant information systems controls. For example, if information supporting the findings and conclusions is generated by information systems or its reliability depends on information systems controls, there may not be sufficient supporting or corroborating information or documentary evidence available other than that produced by the information systems.</p> <p>c. The relationship of information systems controls to data reliability. To obtain evidence about the reliability of computer-generated information, auditors may decide to evaluate the effectiveness of information systems controls as part of obtaining evidence about the reliability of the data. If the auditors conclude that information systems controls are effective, they may reduce the direct testing of data.</p>	
<p>1220 – Due Professional Care Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.</p> <p>1220.A1 – Internal auditors must exercise due professional care by considering the:</p> <ul style="list-style-type: none"> • Extent of work needed to achieve the engagement's objectives. 	<p>3.29 Auditors should use professional judgment when applying the conceptual framework.</p> <p>3.109 Auditors must use professional judgment in planning and conducting the engagement and in reporting the results.</p>	

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<ul style="list-style-type: none"> • Relative complexity, materiality, or significance of matters to which assurance procedures are applied. • Adequacy and effectiveness of governance, risk management, and control processes. • Probability of significant errors, fraud, or noncompliance. • Cost of assurance in relation to potential benefits. <p>1220.A2 – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.</p> <p>1220.A3 – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.</p>		
<p>1230 – Continuing Professional Development Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.</p>	<p>4.04 The audit organization should have a process for recruitment, hiring, continuous development, assignment, and evaluation of personnel so that the workforce has the essential knowledge, skills, and abilities necessary to conduct the engagement. The nature, extent, and formality of the process will depend on various factors, such as the size of the audit organization, its structure, and its work.</p>	<p>Audit activities should follow the more detailed continuing professional education (CPE) requirements of GAGAS for all auditors and internal specialists performing work in accordance with GAGAS, whether certified or not.</p>

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	<p>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:</p> <p>24 hours: Subject matter directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates</p> <p>56 hours: Subject matter that directly enhance auditors' professional expertise to conduct engagements.</p> <p>4.17 Auditors should complete at least 20 hours of CPE in each year of the 2-year periods.</p> <p>4.18 The audit organization should maintain documentation of each auditor's CPE.</p> <p>5.16 The audit organization should establish policies and procedures to provide reasonable assurance that auditors who are performing work in accordance with GAGAS meet the continuing professional education (CPE) requirements, including maintaining documentation of the CPE completed and any exemptions granted.</p>	
<p>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 activity.</p>	<p>5.02 An audit organization conducting engagements 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</p>	<p>Audit activities that follow both IIA and GAGAS standards should adhere to GAGAS' more detailed requirements for the audit organization's quality assurance system by ensuring the system of quality control that is designed in conformance</p>

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	<p>standards and applicable legal and regulatory requirements.</p> <p>5.05 The audit organization should establish policies and procedures on leadership responsibilities for quality within the audit organization that include designating responsibility for quality of engagements conducted in accordance with GAGAS and communicating policies and procedures relating to quality.</p> <p>5.06 The audit organization should establish policies and procedures designed to provide reasonable assurance that those assigned operational responsibility for the audit organization's system of quality control have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.</p> <p>5.08 The audit organization should establish policies and procedures on independence and legal and ethical requirements that are designed to provide reasonable assurance that the organization and its personnel maintain independence and comply with applicable legal and ethical requirements.</p> <p>5.09 At least annually, the audit organization should obtain written affirmation of compliance with its policies and procedures on independence from all of its personnel required to be independent.</p>	<p>with GAGAS 5.02 provides the audit organization with reasonable assurance that the organization and its personnel comply with professional standards, maintain independence, and have sufficient experience and ability needed to comply with applicable legal, regulatory and ethical standards and requirements.</p> <p>Additionally per GAGAS 5.09, at least annually, the audit organization should obtain written affirmation of compliance with its policies and procedures on independence from all of its personnel required to be independent.</p>

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	<p>5.42 The audit organization should establish policies and procedures for monitoring its system of quality control.</p>	
<p>1310 – Requirements of the Quality Assurance and Improvement Program The quality assurance and improvement program must include both internal and external assessments.</p>		
<p>1311 – Internal Assessments Internal assessments must include:</p> <ul style="list-style-type: none"> • Ongoing monitoring of the performance of the internal audit activity. • Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices. 	<p>5.04 An audit organization should document its quality control policies and procedures and communicate those policies and procedures to its personnel. The audit organization should document compliance with its quality control policies and procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent to which the audit organization complies with its quality control policies and procedures.</p> <p>5.42 The audit organization should establish policies and procedures for monitoring its system of quality control.</p> <p>5.43 The audit organization should perform monitoring procedures that enable it to assess compliance with professional standards and quality control policies and procedures for GAGAS engagements. Individuals performing monitoring</p>	<p>Audit organizations following both IIA and GAGAS standards should adhere to GAGAS' more detailed requirements for the audit organization's quality assurance system.</p> <p>Internal assessments must include:</p> <ul style="list-style-type: none"> • Establishment, communication, documentation of and compliance with quality control policies and procedures • Description and performance of monitoring procedures to assess compliance with professional standards and quality control policies and procedures • Analysis and summation of its monitoring processes • Identification and communication of any deficiencies, as appropriate • Evaluation of the effects of deficiencies

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	<p>should have sufficient expertise and authority within the audit organization.</p> <p>5.44 The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to the relevant engagement partner or director, and other appropriate personnel, any deficiencies noted during the monitoring process and recommend appropriate remedial action. This communication should be sufficient to enable the audit organization and appropriate personnel to take prompt corrective action related to deficiencies, when necessary, in accordance with their defined roles and responsibilities. Information communicated should include the following:</p> <ol style="list-style-type: none"> a. a description of the monitoring procedures performed; b. the conclusions reached from the monitoring procedures; and c. when relevant, a description of systemic, repetitive, or other deficiencies and of the actions taken to resolve those deficiencies. <p>5.45 The audit organization should evaluate the effects of deficiencies noted during monitoring of the audit organization's system of quality control to determine and implement appropriate actions to address the deficiencies. This evaluation should include assessments to determine if the deficiencies noted indicate that the audit</p>	<ul style="list-style-type: none"> • Establishment of policies and procedures for retention of engagement documentation

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	<p>organization's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements, and that accordingly the reports that the audit organization issues are not appropriate in the circumstances.</p> <p>5.46 The audit organization should establish policies and procedures that require retention of engagement documentation for a period of time sufficient to permit those performing monitoring procedures and peer review of the organization to evaluate its compliance with its system of quality control or for a longer period if required by law or regulation.</p>	
<p>1312 – External Assessments External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:</p> <ul style="list-style-type: none"> • The form and frequency of external assessment. • The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. 	<p>5.43 The audit organization should perform monitoring procedures that enable it to assess compliance with professional standards and quality control policies and procedures for GAGAS engagements. Individuals performing monitoring should have sufficient expertise and authority within the audit organization.</p> <p>5.60 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, (1) the reviewed audit organization's system of quality control was suitably designed and (2) the organization is complying with its</p>	<p>Audit activities following both IIA and GAGAS standards should have a peer review or an external quality assurance review conducted every three years designed to determine conformance with both <i>The IIA Standards</i> and GAGAS. This approach would likely be more efficient than having a GAGAS review every three years and an <i>IIA Standards</i> review every five years.</p> <p>Audit organizations affiliated with one of the following recognized organizations should comply with the respective organization's peer review requirements:</p> <ul style="list-style-type: none"> ▪ American Institute of Certified Public Accountants.

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	<p>quality control system so that it has reasonable assurance that it is performing and reporting in conformity with professional standards and applicable legal and regulatory requirements in all material respects.</p> <p>5.61 Audit organizations affiliated with one of the following recognized organizations should comply with the respective organization's peer review requirements and the requirements listed throughout paragraphs 5.66 through 5.80.</p> <ol style="list-style-type: none"> a. American Institute of Certified Public Accountants b. Council of the Inspectors General on Integrity and Efficiency c. Association of Local Government Auditors d. International Organization of Supreme Audit Institutions e. National State Auditors Association <p>5.62 Any audit organization not affiliated with an organization listed in paragraph 5.61 should meet the minimum GAGAS peer review requirements throughout paragraphs 5.66 through 5.94.</p> <p>5.66 The peer review team should perform an assessment of peer review risk to help determine the number and types of engagements to select for review.</p> <p>5.67 Based on the risk assessment, the peer review team should select engagements that provide a reasonable cross section of all types of work subject to the reviewed audit organization's</p>	<ul style="list-style-type: none"> ▪ Council of the Inspectors General on Integrity and Efficiency. ▪ Association of Local Government Auditors. ▪ International Organization of Supreme Audit Institutions. ▪ National State Auditors Association

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	<p>quality control system, including one or more engagements conducted in accordance with GAGAS.</p> <p>5.72 The peer review team should use professional judgment in deciding on the type of peer review rating to issue; the ratings are as follows:</p> <p>a. Peer review rating of pass: A conclusion that the audit organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards and applicable legal and regulatory requirements in all material respects.</p> <p>b. Peer review rating of pass with deficiencies: A conclusion that the audit organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards and applicable legal and regulatory requirements in all material respects with the exception of a certain deficiency or deficiencies described in the report.</p> <p>c. Peer review rating of fail: A conclusion, based on the significant deficiencies described in the report, that the audit organization's system of quality control is not suitably designed to provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards and applicable legal and regulatory requirements in all material respects, or</p>	

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	<p>that the audit organization has not complied with its system of quality control to provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards and applicable legal and regulatory requirements in all material respects.</p> <p>5.73 The peer review team should determine the type of peer review rating to issue based on the observed matters' importance to the audit organization's system of quality control as a whole and the nature, causes, patterns, and pervasiveness of those matters. The matters should be assessed both alone and in aggregate.</p> <p>5.74 The peer review team should aggregate and systematically evaluate any observed matters (circumstances that warrant further consideration by the peer review team) and document its evaluation. The peer review team should perform its evaluation and issue report ratings as follows:</p> <p>a. If the peer review team's evaluation of observed matters does not identify any findings (more than a remote possibility that the reviewed audit organization would not perform, report, or both in conformity with professional standards and applicable legal and regulatory requirements), or identifies findings that are not considered to be deficiencies, the peer review team issues a pass rating.</p> <p>b. If the peer review team's evaluation of findings identified deficiencies but did not identify any significant deficiencies, the peer review team</p>	

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	<p>issues a pass with deficiencies rating and communicates the deficiencies in its report.</p> <p>c. If the peer review team's evaluation of deficiencies identified significant deficiencies, the peer review team issues a fail rating and communicates the deficiencies and significant deficiencies in its report.</p> <p>5.77 An external audit organization should make its most recent peer review report publicly available. If a separate communication detailing findings, conclusions, and recommendations is issued, the external audit organization is not required to make that communication publicly available. An internal audit organization that reports internally to management and those charged with governance should provide a copy of its peer review report to those charged with governance.</p> <p>5.78 An external audit organization should satisfy the publication requirement for its peer review report by posting the report on a publicly available website or to a publicly available file. Alternatively, if neither of these options is available, then the audit organization should use the same mechanism it uses to make other reports or documents public.</p> <p>5.79 Because information in peer review reports may be relevant to decisions on procuring audit services, an audit organization seeking to enter into a contract to conduct an engagement in accordance with GAGAS should provide the</p>	

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	<p>following to the party contracting for such services when requested:</p> <ul style="list-style-type: none"> a. the audit organization's most recent peer review report and b. any subsequent peer review reports received during the period of the contract. <p>5.82 The peer review team should include the following elements in the scope of the peer review:</p> <ul style="list-style-type: none"> a. review of the audit organization's design of, and compliance with, quality control and related policies and procedures; b. consideration of the adequacy and results of the audit organization's internal monitoring procedures; c. review of selected audit reports and related documentation and, if applicable, documentation related to selected terminated engagements prepared in accordance with paragraph 5.25, if any terminated engagements are selected from the universe of engagements used for the peer review sample; d. review of prior peer review reports, if applicable; e. review of other documents necessary for assessing compliance with standards, for example, independence documentation, CPE records, and relevant human resource management files; and f. interviews with selected members of the audit organization's personnel in various roles to assess their understanding of and compliance 	

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	<p>with relevant quality control policies and procedures.</p> <p>5.84 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.</p> <p>5.86 The peer review team and the reviewed audit organization should incorporate their basic agreement on the peer review into a written agreement. The written agreement should be drafted by the peer review team, reviewed by the reviewed audit organization to ensure that it accurately describes the agreement between the parties, and signed by the authorized representatives of both the peer review team and the reviewed audit organization prior to the initiation of work under the agreement. The written agreement should state that the peer review will be conducted in accordance with GAGAS peer review requirements.</p> <p>5.89 The peer review team should meet the following criteria:</p> <ul style="list-style-type: none"> a. The review team collectively has adequate professional competence and knowledge of GAGAS and government auditing. b. The organization conducting the peer review and individual review team members are independent (as defined in GAGAS) of the audit 	

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	<p>organization being reviewed, its personnel, and the engagements selected for the peer review.³⁸</p> <p>c. The review team collectively has sufficient knowledge to conduct a peer review.</p> <p>5.91 The peer review team should prepare one or more written reports communicating the results of the peer review, which collectively include the following elements:</p> <ul style="list-style-type: none"> a. a description of the scope of the peer review, including any limitations; b. a rating concluding on whether the system of quality control of the reviewed audit organization was adequately designed and complied with during the period reviewed and would provide the audit organization with reasonable assurance that it conformed to professional standards and applicable legal and regulatory requirements; c. specification of the professional standards and applicable legal and regulatory requirements to which the reviewed audit organization is being held; d. reference to a separate written communication, if issued under the peer review program; e. a statement that the peer review was conducted in accordance with GAGAS peer review requirements; and f. a detailed description of the findings, conclusions, and recommendations related to any deficiencies or significant deficiencies identified in the review. <p>5.93 If the reviewed audit organization receives a report with a peer review rating of pass with</p>	

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	<p>deficiencies or fail, the reviewed audit organization should respond in writing to the deficiencies or significant deficiencies and related recommendations identified in the report.</p> <p>5.94 With respect to each deficiency or significant deficiency in the report, the reviewed audit organization should describe in its letter of response the corrective actions already taken, target dates for planned corrective actions, or both.</p>	
<p>1320 – Reporting on the Quality Assurance and Improvement Program The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:</p> <ul style="list-style-type: none"> • The scope and frequency of both the internal and external assessments. • The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest. • Conclusions of assessors. • Corrective action plans. 		
<p>1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing” Indicating that the internal audit activity conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> is appropriate only if supported by the results of the quality assurance and improvement program.</p>	<p>2.16 When auditors are required to conduct an engagement in accordance with GAGAS or are representing to others that they did so, they should cite compliance with GAGAS in the audit report as set forth in paragraphs 2.17 through 2.19.</p> <p>2.17 Auditors should include one of the following types of GAGAS compliance statements in reports on GAGAS engagements, as appropriate.</p>	<p>Audit activities following both IIA and GAGAS standards should use GAGAS language and also make reference to the IIA <i>Standards</i> when reporting.</p> <p>Under GAGAS, all aspects of quality control including the three year external peer review must be followed to be in compliance with GAGAS. If the organization does not have external peer</p>

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	<p>a. Unmodified GAGAS compliance statement: Stating that the auditors conducted the engagement in accordance with GAGAS. Auditors should include an unmodified GAGAS compliance statement in the audit report when they have (1) followed unconditional and applicable presumptively mandatory GAGAS requirements or (2) followed unconditional requirements, documented justification for any departures from applicable presumptively mandatory requirements, and achieved the objectives of those requirements through other means.</p> <p>b. Modified GAGAS compliance statement: Stating either that</p> <p>(1) the auditors conducted the engagement in accordance with GAGAS, except for specific applicable requirements that were not followed, or</p> <p>(2) because of the significance of the departure(s) from the requirements, the auditors were unable to and did not conduct the engagement in accordance with GAGAS.</p> <p>2.18 When auditors use a modified GAGAS statement, they should disclose in the report the applicable requirement(s) not followed, the reasons for not following the requirement(s), and how not following the requirement(s) affected or could have affected the engagement and the assurance provided.</p> <p>2.19 When auditors do not comply with applicable requirement(s), they should (1) assess the significance of the noncompliance to the engagement objectives; (2) document the</p>	<p>reviews every three years, it cannot state compliance with the Yellow Book.</p>

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	assessment, along with their reasons for not following the requirement(s); and (3) determine the type of GAGAS compliance statement.	
<p>1322 – Disclosure of Nonconformance When nonconformance with the Code of Ethics or the <i>Standards</i> impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.</p>	<p>2.04 If, in rare circumstances, auditors judge it necessary to depart from a relevant presumptively mandatory requirement, they must document their justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement.</p> <p>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.</p> <p>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.</p>	
<p>2000 – Managing the Internal Audit Activity The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.</p>	<p>3.76 Auditors providing nonaudit services to audited entities should obtain agreement from audited entity management that audited entity management performs the following functions in connection with the nonaudit services: a. assumes all management responsibilities;</p>	

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	<p>b. oversees the services, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience;</p> <p>c. evaluates the adequacy and results of the services provided; and</p> <p>d. accepts responsibility for the results of the services.</p> <p>4.04 The audit organization should have a process for recruitment, hiring, continuous development, assignment, and evaluation of personnel so that the workforce has the essential knowledge, skills, and abilities necessary to conduct the engagement. The nature, extent, and formality of the process will depend on various factors, such as the size of the audit organization, its structure, and its work.</p>	
<p>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.</p> <p>2010.A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.</p> <p>2010.A2 – The chief audit executive must identify and consider the expectations of senior management, the board, and other</p>		<p>Audit activities following both IIA and GAGAS standards should comply with the additional IIA requirement that the audit activity must complete a plan of engagements at least annually that is based on a documented risk assessment.</p>

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stakeholders for internal audit opinions and other conclusions.		
2020 – Communication and Approval The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.		In audit activities following both IIA and GAGAS standards, the chief audit executive must adhere to IIA Standard 2020 , which is stricter by communicating the internal audit activity's plans and resource requirements to senior management and governance for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030 – Resource Management The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.	<p>4.02 The audit organization's management must assign auditors to conduct the engagement who before beginning work on the engagement collectively possess the competence needed to address the engagement objectives and perform their work in accordance with GAGAS.</p> <p>4.03 The audit organization's management must assign auditors who before beginning work on the engagement possess the competence needed for their assigned roles.</p> <p>8.31 Audit management should assign sufficient auditors with adequate collective professional competence, as described in paragraphs 4.02 through 4.15, to conduct the audit. Staffing an audit includes, among other things,</p> <ul style="list-style-type: none"> a. assigning auditors with the collective knowledge, skills, and abilities appropriate for the audit; b. assigning a sufficient number of auditors to the audit; 	Audit activities following both IIA and GAGAS standards should ensure they follow the more specific requirements in GAGAS 8.31 for assigning auditors and 8.32 if the audit requires the use of a specialist, ensuring the work of the specialist is documented.

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	<p>c. providing for on-the-job training of auditors; and d. engaging specialists when necessary.</p> <p>8.32 If planning to use the work of specialists, auditors should document the nature and scope of the work to be performed by the specialists, including</p> <ul style="list-style-type: none"> a. the objectives and scope of the specialists' work, b. the intended use of the specialists' work to support the audit objectives, c. the specialists' procedures and findings so they can be evaluated and related to other planned audit procedures, and d. the assumptions and methods used by the specialists. 	
<p>2040 – Policies and Procedures The chief audit executive must establish policies and procedures to guide the internal audit activity.</p>	<p>5.05 The audit organization should establish policies and procedures on leadership responsibilities for quality within the audit organization that include designating responsibility for quality of engagements conducted in accordance with GAGAS and communicating policies and procedures relating to quality.</p> <p>5.06 The audit organization should establish policies and procedures designed to provide reasonable assurance that those assigned operational responsibility for the audit organization's system of quality control have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.</p>	<p>Audit activities following both IIA and GAGAS standards should follow the more extensive GAGAS standards in their entirety for the topic of audit Policies and Procedures.</p>

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	<p>5.08 The audit organization should establish policies and procedures on independence and legal and ethical requirements that are designed to provide reasonable assurance that the organization and its personnel maintain independence and comply with applicable legal and ethical requirements.</p> <p>5.09 At least annually, the audit organization should obtain written affirmation of compliance with its policies and procedures on independence from all of its personnel required to be independent.</p> <p>5.12 The audit organization should establish policies and procedures for the initiation, acceptance, and continuance of engagements that are designed to provide reasonable assurance that the organization will undertake engagements only if it</p> <ul style="list-style-type: none"> a. complies with professional standards, applicable legal and regulatory requirements, and ethical principles; b. acts within its legal mandate or authority; and c. has the capabilities, including time and resources, to do so. <p>5.15 The audit organization should establish policies and procedures for human resources that are designed to provide the organization with reasonable assurance that it has personnel with the competence to conduct GAGAS engagements in accordance with professional standards and applicable legal and regulatory requirements.</p>	

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	<p>5.16 The audit organization should establish policies and procedures to provide reasonable assurance that auditors who are performing work in accordance with GAGAS meet the continuing professional education (CPE) requirements, including maintaining documentation of the CPE completed and any exemptions granted.</p> <p>5.22 The audit organization should establish policies and procedures for engagement performance, documentation, and reporting that are designed to provide the audit organization with reasonable assurance that engagements are conducted and reports are issued in accordance with professional standards and applicable legal and regulatory requirements.</p> <p>5.24 The audit organization should establish policies and procedures designed to provide it with reasonable assurance that</p> <ul style="list-style-type: none"> a. appropriate consultation takes place on difficult or contentious issues that arise among engagement team members in the course of conducting a GAGAS engagement; b. both the individual seeking consultation and the individual consulted document and agree upon the nature and scope of such consultations; and c. the conclusions resulting from consultations are documented, understood by both the individual seeking consultation and the individual consulted, and implemented. <p>5.36 The audit organization should establish policies and procedures that require engagement</p>	

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	<p>team members with appropriate levels of skill and proficiency in auditing to supervise engagements and review work performed by other engagement team members.</p> <p>5.37 The audit organization should assign responsibility for each engagement to an engagement partner or director with authority designated by the audit organization to assume that responsibility and should establish policies and procedures requiring the organization to</p> <ul style="list-style-type: none"> a. communicate the identity and role of the engagement partner or director to management and those charged with governance of the audited entity and b. clearly define the responsibilities of the engagement partner or director and communicate them to that individual. <p>5.42 The audit organization should establish policies and procedures for monitoring its system of quality control.</p> <p>5.46 The audit organization should establish policies and procedures that require retention of engagement documentation for a period of time sufficient to permit those performing monitoring procedures and peer review of the organization to evaluate its compliance with its system of quality control or for a longer period if required by law or regulation.</p>	
<p>2050 – Coordination and Reliance The chief audit executive should share information, coordinate activities, and</p>	<p>5.80 Auditors who are using another audit organization's work should request a copy of that organization's most recent peer review report, and</p>	<p>Audit activities following both IIA and GAGAS standards and using another audit organization's work should adhere to the</p>

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<p>consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.</p>	<p>the organization should provide this document when it is requested.</p> <p>8.80 Auditors should determine whether other auditors have conducted, or are conducting, audits that could be relevant to the current audit objectives.</p> <p>8.81 If auditors use the work of other auditors, they should perform procedures that provide a sufficient basis for using that work. Auditors should obtain evidence concerning the other auditors' qualifications and independence and should determine whether the scope, quality, and timing of the audit work performed by the other auditors can be relied on in the context of the current audit objectives.</p> <p>8.82 If the engagement team intends to use the work of a specialist, it should assess the independence of the specialist.</p>	<p>more extensive GAGAS 5.80 by requesting a copy of that organization's most recent peer review report, and the organization should provide this document when it is requested.</p> <p>Additionally, they should adhere to GAGAS 8.80 through 8.82 to ensure other audits that have been conducted or are being conducted relevant to the current audit objectives, especially if they intend to use the work of other auditors or the work of a specialist in the engagement.</p>
<p>2060 – Reporting to Senior Management and the Board The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the <i>Standards</i>. Reporting must also include significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board.</p>		<p>Audit activities following both IIA and GAGAS standards must ensure they are meeting reporting requirements in IIA Standard 2060.</p>

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<p>2070 – External Service Provider and Organizational Responsibility for Internal Auditing When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.</p>		
<p>2100 – Nature of Work The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.</p>		<p>Audit activities following both IIA and GAGAS standards must ensure adherence to IIA Standard 2100.</p>
<p>2110 – Governance The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes for:</p> <ul style="list-style-type: none"> • Making strategic and operational decisions. • Overseeing risk management and control. • Promoting appropriate ethics and values within the organization. • Ensuring effective organizational performance management and accountability. 	<p>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, 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, and accountability and transparency for resources and results.</p>	<p>Audit activities following both IIA and GAGAS standards should comply with the additional requirements of IIA 2110 indicating that a periodic evaluation should be made of the organization's ethics program, and that evaluation should be documented through a note or memos with the file or through an audit on the subject matter.</p>

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<ul style="list-style-type: none"> • Communicating risk and control information to appropriate areas of the organization. • Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management. <p>2110-A.1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.</p> <p>2110-A.2 – The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.</p>		
<p>2120 – Risk Management The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.</p> <p>2120.A1 – The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:</p> <ul style="list-style-type: none"> • Achievement of the organization's strategic objectives. • Reliability and integrity of financial and operational information, • Effectiveness and efficiency of operations and programs. 	<p>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.</p>	<p>Audit activities following both IIA and GAGAS standards should note that GAGAS 8.71 provides more specific guidance on conducting a fraud brainstorming session for each audit, and performing additional audit procedures.</p>

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<ul style="list-style-type: none"> • Safeguarding of assets. • Compliance with laws, regulations, policies, procedures and contracts. <p>2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.</p>		
<p>2130 – Control The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.</p> <p>2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:</p> <ul style="list-style-type: none"> • Achievement of the organization's strategic objectives. • Reliability and integrity of financial and operational information. • Effectiveness and efficiency of operations and programs. • Safeguarding of assets. • Compliance with laws, regulations, policies, procedures, and contracts. 		<p>Audit activities following both IIA and GAGAS standards must ensure adherence to IIA Standard 2130.</p>
<p>2200 – Engagement Planning Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and</p>	<p>8.03 Auditors must adequately plan the work necessary to address the audit objectives. Auditors must document the audit plan.</p>	

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<p>resource allocations. The plan must consider the organization's strategies, objectives, and risks relevant to the engagement.</p>		
<p>2201 – Planning Considerations In planning the engagement, internal auditors must consider:</p> <ul style="list-style-type: none"> • The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance. • The significant risks to the activity's objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level. • The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model. • The opportunities for making significant improvements to the activity's governance, risk management, and control processes. <p>2201.A1 When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.</p>	<p>8.04 Auditors must plan the audit to reduce audit risk to an acceptably low level.</p> <p>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.</p> <p>8.07 Auditors should identify and use suitable criteria based on the audit objectives.</p> <p>8.20 Auditors should communicate an overview of the objectives, scope, and methodology and the timing of the performance audit and planned reporting (including any potential restrictions on the report), unless doing so could significantly impair the auditors' ability to obtain sufficient, appropriate evidence to address the audit objectives. Auditors should communicate such information with the following parties, as applicable:</p> <ol style="list-style-type: none"> a. management of the audited entity, including those with sufficient authority and responsibility to implement corrective action in the program or activity being audited; b. those charged with governance; c. the individuals contracting for or requesting audit services, such as contracting officials or grantees; or 	<p>Audit activities following both IIA and GAGAS standards must ensure compliance with the additional specificity of GAGAS 8.04, 8.06, 8.07, 8.20, 8.22 and 8.36.</p>

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	<p>d. the cognizant legislative committee, when auditors conduct the audit pursuant to a law or regulation or when they conduct the work for the legislative committee that has oversight of the audited entity.</p> <p>8.21 In situations where the parties required to receive communications, as described in paragraph 8.20, are not clearly evident, auditors should document the process followed and conclusions reached in identifying the appropriate individuals to receive the required communications.</p> <p>8.22 Auditors should retain any written communication resulting from paragraph 8.20 as audit documentation.</p> <p>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</p> <ul style="list-style-type: none"> a. visibility, sensitivity, and relevant risks associated with the program under audit; b. age of the program or changes in its condition; c. the size of the program in terms of total dollars, number of citizens affected, or other measures; d. level and extent of review or other forms of independent oversight; e. the program's strategic plan and objectives; <p>and</p>	

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<p>2210 – Engagement Objectives Objectives must be established for each engagement.</p> <p>2210.A1 – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.</p> <p>2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.</p> <p>2210.A3 – Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.</p>	<p>f. external factors or conditions that could directly affect the program.</p> <p>5.23 If auditors change the engagement objectives during the engagement, they should document the revised engagement objectives and the reasons for the changes.</p> <p>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.</p> <p>8.08 The audit objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included. Audit objectives can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria. Audit objectives may also pertain to the current status or condition of a program. The term program as used in GAGAS includes processes, projects, studies, policies, operations, activities, entities, and functions.</p> <p>8.09 Auditors may need to refine or adjust the audit objectives, scope, and methodology as work is performed. However, in situations where the audit objectives are established by statute or legislative oversight, auditors may not have latitude to define or adjust the audit objectives or scope.</p>	<p>Audit activities following both IIA and GAGAS standards should document revised engagement objectives and the reasons for the changes if the engagement objectives change from the original plan, in accordance with GAGAS 5.23.</p> <p>Activities following both sets of standards must ensure they follow the additional specificity in GAGAS 8.08 and 8.09 on the objectives, scope, and methodology.</p> <p>Additionally, activities should adhere to GAGAS 8.27 through 8.30 to determine if there are ongoing investigations, or legal proceedings that may impact the audit, reporting any instances of fraud or noncompliance to law enforcement (if applicable), and ensuring the audit doesn't impede current investigations that may be ongoing.</p>

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	<p>8.27 Auditors should inquire of management of the audited entity whether any investigations or legal proceedings significant to the audit objectives have been initiated or are in process with respect to the period under audit, and should evaluate the effect of initiated or in process investigations or legal proceedings on the current audit.</p> <p>8.28 Laws, regulations, or policies may require auditors to report indications of the following to law enforcement or investigatory authorities before performing additional audit procedures: certain types of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements.</p> <p>8.29 Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. In some cases, it may be appropriate for the auditors to work with investigators or legal authorities or to withdraw from or defer further work on the engagement or a portion of the engagement to avoid interfering with an ongoing investigation or legal proceeding.</p> <p>8.39 Auditors should determine and document whether internal control is significant to the audit objectives.</p>	

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	<p>8.40 If it is determined that internal control is significant to the audit objectives, auditors should obtain an understanding of such internal control.</p> <p>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.</p> <p>8.72 Assessing the risk of fraud is an ongoing process throughout the audit. When information comes to the auditors' 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 (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings.</p>	
<p>2220 – Engagement Scope The established scope must be sufficient to achieve the objectives of the engagement.</p> <p>2220.A1 – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical</p>	<p>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.</p> <p>8.10 Scope is the boundary of the audit and is directly tied to the audit objectives. The scope</p>	<p>Audit activities following both IIA and GAGAS standards should consider GAGAS 8.06 which includes considerations for designing the methodology to reduce audit risk.</p>

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<p>properties, including those under the control of third parties.</p> <p>2220.A2 – If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.</p>	<p>defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included.</p> <p>8.39 Auditors should determine and document whether internal control is significant to the audit objectives.</p>	
<p>2230 – Engagement Resource Allocation Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.</p>	<p>4.02 The audit organization's management must assign auditors to conduct the engagement who before beginning work on the engagement collectively possess the competence needed to address the engagement objectives and perform their work in accordance with GAGAS.</p> <p>4.03 The audit organization's management must assign auditors who before beginning work on the engagement possess the competence needed for their assigned roles.</p> <p>4.12 The engagement team should determine that specialists assisting the engagement team on a GAGAS engagement are qualified and competent in their areas of specialization.</p>	
<p>2240 – Engagement Work Program Internal auditors must develop and document work programs that achieve the engagement objectives.</p>	<p>8.11 The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. Audit procedures are the specific steps</p>	<p>Audit activities following both IIA and GAGAS standards should observe the additional requirements of GAGAS 8.60 through 8.62 and 8.68.</p>

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<p>2240.A1 – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.</p>	<p>and tests auditors perform to address the audit objectives.</p> <p>8.33 Auditors must prepare a written audit plan for each audit. Auditors should update the plan, as necessary, to reflect any significant changes to the plan made during the audit.</p> <p>8.49 If internal control is determined to be significant to the audit objectives, auditors should assess and document their assessment of the design, implementation, and/or operating effectiveness of such internal control to the extent necessary to address the audit objectives.</p> <p>8.54 Auditors should evaluate and document the significance of identified internal control deficiencies within the context of the audit objectives.</p> <p>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.</p> <p>8.60 When information systems controls are determined to be significant to the audit objectives or when the effectiveness of significant controls depends on the effectiveness of information systems controls, auditors should then evaluate the design, implementation, and/or operating</p>	

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	<p>effectiveness of such controls. This evaluation includes other information systems controls that affect the effectiveness of the significant controls or the reliability of information used in performing the significant controls. Auditors should obtain a sufficient understanding of information systems controls necessary to assess audit risk and plan the audit within the context of the audit objectives.</p> <p>8.61 Auditors should determine which audit procedures related to information systems controls are needed to obtain sufficient, appropriate evidence to support the audit findings and conclusions.</p> <p>8.62 When evaluating information systems controls is an audit objective, auditors should test information systems controls to the extent necessary to address the audit objective.</p> <p>8.68 Auditors should identify any provisions of laws, regulations, contracts, and grant agreements that are significant within the context of the audit objectives and assess the risk that noncompliance with provisions of laws, regulations, contracts, and grant agreements could occur. Based on that risk assessment, the auditors should design and perform procedures to obtain reasonable assurance of detecting instances of noncompliance with provisions of laws, regulations, contracts, and grant agreements that are significant within the context of the audit objectives.</p>	

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<p>2300 – Performing the Engagement Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.</p>	<p>8.12 Obtaining sufficient, appropriate evidence provides auditors with a reasonable basis for findings and conclusions that are valid, accurate, appropriate, and complete with respect to the audit objectives.</p> <p>8.13 The sufficiency and appropriateness of evidence needed and tests of evidence are determined by the auditors based on the audit objectives, findings, and conclusions. Objectives for performance audits range from narrow to broad and involve varying types and quality of evidence. In some engagements, sufficient, appropriate evidence is available, but in others, information may have limitations. Professional judgment assists auditors in determining the audit scope and methodology needed to address the audit objectives and in evaluating whether sufficient, appropriate evidence has been obtained to address the audit objectives.</p>	
<p>2310 – Identifying Information Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.</p>	<p>8.77 Auditors should identify potential sources of information that could be used as evidence. Auditors should determine the amount and type of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives and adequately plan audit work.</p> <p>8.78 Auditors should evaluate whether any lack of sufficient, appropriate evidence is caused by internal control deficiencies or other program weaknesses, and whether the lack of sufficient, appropriate evidence could be the basis for audit findings.</p>	

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	<p>8.90 Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for addressing the audit objectives and supporting their findings and conclusions.</p> <p>8.91 In assessing the appropriateness of evidence, auditors should assess whether the evidence is relevant, valid, and reliable.</p> <p>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.</p> <p>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.</p> <p>8.94 Auditors should evaluate the objectivity, credibility, and reliability of testimonial evidence.</p> <p>9.47 Auditors should obtain sufficient, appropriate evidence, such as confirmation from outside parties, to corroborate representations by audited entity management that it has reported audit findings in accordance with provisions of laws, regulations, or funding agreements. When auditors are unable to do so, they should report</p>	

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	such information directly, as discussed in paragraphs 9.45 and 9.46.	
<p>2320 – Analysis and Evaluation Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.</p>	<p>8.108 Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments performed to conclude on the validity and reliability of specific evidence.</p> <p>8.109 When assessing the overall sufficiency and appropriateness of evidence, auditors should evaluate the expected significance of evidence to the audit objectives, findings, and conclusions; available corroborating evidence; and the level of audit risk. If auditors conclude that evidence is not sufficient or appropriate, they should not use such evidence as support for findings and conclusions.</p> <p>8.110 When the auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, they should perform additional procedures, as appropriate.</p> <p>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.</p> <p>8.117 Auditors should consider internal control deficiencies in their evaluation of identified findings when developing the cause element of</p>	<p>Audit activities following both IIA and GAGAS standards should observe the additional requirements of GAGAS 8.108 through 8.110, 8.116, and 8.117.</p>

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	the identified findings when internal control is significant to the audit objectives.	
<p>Through 2330 – Documenting Information Internal auditors must document sufficient, reliable, relevant and useful information to support the engagement results and conclusions.</p> <p>2330.A1 – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.</p> <p>2330.A2 – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.</p>	<p>3.74 Auditors should document consideration of management's ability to effectively oversee nonaudit services to be provided.</p> <p>3.107 While insufficient documentation of an auditor's compliance with the independence standard does not impair independence, auditors should prepare appropriate documentation under the GAGAS quality control and assurance requirements.²⁵ The independence standard includes the following documentation requirements, where applicable:</p> <ul style="list-style-type: none"> a. document threats to independence that require the application of safeguards, along with safeguards applied, in accordance with the conceptual framework for independence as required by paragraph 3.33; b. document the safeguards in paragraphs 3.52 through 3.56 if an audit organization is structurally located within a government entity and is considered structurally independent based on those safeguards; c. document consideration of audited entity management's ability to effectively oversee a nonaudit service to be provided by the auditor as indicated in paragraph 3.74; d. document the auditor's understanding with an audited entity for which the auditor will provide a nonaudit service as indicated in paragraph 3.77; <p>and</p>	<p>Audit activities following both IIA and GAGAS standards must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions. Documentation should include an auditor's compliance with the independence standard, any threats to independence that require safeguards, and any work conducted leading up to and the basis for termination of an engagement.</p> <p>Audit activities following both sets of standards should ensure compliance with the more specific guidance in GAGAS 8.135 around documentation of objectives, scope, and methodology as well as 8.132 through 8.134 for documenting information related to planning, conducting and reporting.</p> <p>Additionally, ensure conformance with IIA Standard 2330.A1 to obtain approval prior to releasing records externally to the organization.</p>

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	<p>e. document the evaluation of the significance of the threats created by providing any of the services discussed in paragraph 3.89.</p> <p>5.25 If an engagement is terminated before it is completed and an audit report is not issued, auditors should document the results of the work to the date of termination and why the engagement was terminated.</p> <p>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.</p> <p>8.133 Auditors should prepare audit documentation that contains evidence that supports the findings, conclusions, and recommendations before they issue their report.</p> <p>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</p>	

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	<p>that the auditors have reached. The quantity, type, and content of audit documentation are a matter of the auditors' professional judgment.</p> <p>8.135 Auditors should document the following:</p> <ul style="list-style-type: none"> a. the objectives, scope, and methodology of the audit; b. 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 c. supervisory review, before the audit report is issued, of the evidence that supports the findings, conclusions, and recommendations contained in the audit report. <p>8.140 Subject to applicable provisions of laws and regulations, auditors should make appropriate individuals and audit documentation available upon request and in a timely manner to other auditors or reviewers.</p>	
<p>2340 – Engagement Supervision Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.</p>	<p>5.23 If auditors change the engagement objectives during the engagement, they should document the revised engagement objectives and the reasons for the changes.</p> <p>5.36 The audit organization should establish policies and procedures that require engagement</p>	

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	<p>team members with appropriate levels of skill and proficiency in auditing to supervise engagements and review work performed by other engagement team members.</p> <p>5.37 The audit organization should assign responsibility for each engagement to an engagement partner or director with authority designated by the audit organization to assume that responsibility and should establish policies and procedures requiring the organization to</p> <ul style="list-style-type: none"> a. communicate the identity and role of the engagement partner or director to management and those charged with governance of the audited entity and b. clearly define the responsibilities of the engagement partner or director and communicate them to that individual. <p>8.87 Auditors must properly supervise audit staff.</p>	
<p>2400 – Communicating Results Internal auditors must communicate the results of engagements.</p>	<p>9.06 Auditors should issue audit reports communicating the results of each completed performance audit.</p> <p>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.</p> <p>9.52 When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain</p>	<p>Audit activities following both IIA and GAGAS standards should note that GAGAS 9.07 states the audit report should be either in writing or in some other retrievable form, which is more detailed than IIA Standard 2400.</p>

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	<p>in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported by sufficient, appropriate evidence.</p> <p>9.53 If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments.</p>	
<p>2410 – Criteria for Communicating Communications must include the engagement's objectives, scope, and results.</p> <p>2410.A1 – Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.</p> <p>2410.A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.</p>	<p>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; and (4) if applicable, the nature of any confidential or sensitive information omitted.</p> <p>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.</p> <p>9.12 Auditors should describe the scope of the work performed and any limitations, including issues that would be relevant to likely users, so</p>	<p>Audit activities following both IIA and GAGAS standards should note that GAGAS outlines more detailed requirements for communication. Auditors should closely observe GAGAS 9.10 through 9.61.</p>

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<p>2410.A3 – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.</p>	<p>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.</p> <p>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.</p> <p>9.14 In reporting audit methodology, auditors should explain how the completed audit work supports the audit objectives, including 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</p>	

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	<p>recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.</p> <p>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.</p> <p>9.19 Auditors should report conclusions based on the audit objectives and the audit findings.</p> <p>9.20 Auditors should describe in their report limitations or uncertainties with the reliability or validity of evidence if (1) the evidence is significant to the findings and conclusions within the context of the audit objectives and (2) such disclosure is necessary to avoid misleading the report users about the findings and conclusions. Auditors should describe the limitations or uncertainties regarding evidence in conjunction with the findings and conclusions, in addition to describing those limitations or uncertainties as part of the objectives, scope, and methodology.</p> <p>9.21 Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the findings. To give the reader a basis for judging the prevalence</p>	

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	<p>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.</p> <p>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.</p> <p>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.</p> <p>9.29 When internal control is significant within the context of the audit objectives, auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed.</p>	

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	<p>9.30 If some but not all internal control components are significant to the audit objectives, the auditors should identify as part of the scope those internal control components and underlying principles that are significant to the audit objectives.</p> <p>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.</p> <p>9.35 Auditors should report a matter as a finding when they conclude, based on sufficient, appropriate evidence, that noncompliance with provisions of laws, regulations, contracts, and grant agreements either has occurred or is likely to have occurred that is significant within the context of the audit objectives.</p> <p>9.36 Auditors should communicate findings in writing to audited entity officials when the auditors detect instances of noncompliance with provisions of laws, regulations, contracts, and grant agreements that are not significant within the context of the audit objectives but warrant the attention of those charged with governance.</p>	

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	<p>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.</p> <p>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.</p> <p>9.50 Auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations in the audit report, as well as any planned corrective actions.</p> <p>9.51 When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials' written comments or a summary of the comments received. When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments, provide a copy of the summary to the responsible officials to verify that the comments are accurately represented, and include the summary in their report.</p> <p>9.59 A public accounting firm contracted to conduct an audit in accordance with GAGAS should clarify report distribution responsibilities with the engaging party. If the contracting firm is</p>	

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	<p>responsible for the distribution, it should reach agreement with the party contracting for the audit about which officials or organizations will receive the report and the steps being taken to make the report available to the public.</p> <p>9.61 If certain information is prohibited from public disclosure or is excluded from a report because of its confidential or sensitive nature, auditors should disclose in the report that certain information has been omitted and the circumstances that make the omission necessary.</p> <p>9.62 When circumstances call for omission of certain information from the report, auditors should evaluate whether this omission could distort the audit results or conceal improper or illegal practices and revise the report language as necessary to avoid report users drawing inappropriate conclusions from the information presented.</p> <p>9.63 When the audit organization is subject to public records laws, auditors should determine whether public records laws could affect the availability of classified or limited use reports and determine whether other means of communicating with management and those charged with governance would be more appropriate. Auditors use professional judgment to determine the appropriate means to communicate the omitted information to management and those charged with governance considering, among other things,</p>	

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	whether public records laws could affect the availability of classified or limited use reports.	
2420 – Quality of Communications Communications must be accurate, objective, clear, concise, constructive, complete, and timely.		
2421 – Errors and Omissions If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.	9.68 If, after the report is issued, the auditors discover that they did not have sufficient, appropriate evidence to support the reported findings or conclusions, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the entities requiring or arranging for the audits, and other known users, so that they do not continue to rely on the findings or conclusions that were not supported. If the report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed. The auditors should then determine whether to perform the additional audit work necessary to either reissue the report, including any revised findings or conclusions, or repost the original report if the additional audit work does not result in a change in findings or conclusions.	
2430 – Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i>” Indicating that engagements are “conducted in conformance with the <i>International Standards for the Professional Practice of</i>	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:	Audit activities following both IIA and GAGAS standards should adhere to GAGAS 9.03 that provides specific language to indicate work was performed in accordance with GAGAS. The language provides for a compliance statement that the audit complied with GAGAS and a

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<p><i>Internal Auditing</i> is appropriate only if supported by the results of the quality assurance and improvement program.</p>	<p><i>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.</i></p> <p>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.</p>	<p>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.</p> <p>Suggestion: When reporting, use GAGAS language and also make reference to The IIA Standards. For example:</p> <p><i>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.</i></p> <p>Note: Internal audit organizations that meet the independence requirements for internal audit organizations under GAGAS, but not those for external audit organizations, should include in the GAGAS compliance statement language that they are independent per the GAGAS requirements for internal auditors.</p>

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<p>2431 – Engagement Disclosure of Nonconformance When nonconformance with the Code of Ethics or the <i>Standards</i> impacts a specific engagement, communication of the results must disclose the:</p> <ul style="list-style-type: none"> • Principle(s) or rule(s) of conduct of the Code of Ethics or the standard(s) with which full conformance was not achieved. • Reason(s) for nonconformance. • Impact of nonconformance on the engagement and the communicated engagement results. 	<p>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.</p> <p>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.</p>	
<p>2440 – Disseminating Results The chief audit executive must communicate results to the appropriate parties.</p> <p>2440.A1 – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.</p> <p>2440.A2 – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:</p> <ul style="list-style-type: none"> • Assess the potential risk to the organization. • Consult with senior management and/or legal counsel as 	<p>9.45 Auditors should report known or likely noncompliance with provisions of laws, regulations, contracts, and grant agreements or fraud directly to parties outside the audited entity in the following two circumstances.</p> <p>a. When audited entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties.</p>	<p>Audit activities following both IIA and GAGAS standards should observe the more restrictive language of GAGAS 9.45 and follow it accordingly.</p>

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<p>appropriate. • Control dissemination by restricting the use of the results.</p>	<p>b. When audited entity management fails to take timely and appropriate steps to respond to noncompliance with provisions of laws, regulations, contracts, and grant agreements or instances of fraud that (1) are likely to have a significant effect on the subject matter and (2) involve funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the audited entity's failure to take timely and appropriate steps directly to the funding agency.</p> <p>9.46 Auditors should comply with the requirements in paragraph 9.45 even if they have resigned or been dismissed from the audit prior to its completion.</p> <p>9.47 Auditors should obtain sufficient, appropriate evidence, such as confirmation from outside parties, to corroborate representations by audited entity management that it has reported audit findings in accordance with provisions of laws, regulations, or funding agreements. When auditors are unable to do so, they should report such information directly, as discussed in paragraphs 9.45 and 9.46.</p>	

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	<p>9.56 Distribution of reports completed in accordance with GAGAS depends on the auditors' relationship with the audited organization and the nature of the information contained in the reports. Auditors should document any limitation on report distribution. Auditors should make audit reports available to the public, unless distribution is specifically limited by the terms of the engagement, law, or regulation.</p> <p>9.57 If an internal audit organization in a government entity follows the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing as well as GAGAS, the head of the internal audit organization should communicate results to the parties who can ensure that the results are given due consideration. If not otherwise mandated by statutory or regulatory requirements, prior to releasing results to parties outside the organization, the head of the internal audit organization should (1) assess the potential risk to the organization, (2) consult with senior management or legal counsel as appropriate, and (3) control dissemination by indicating the intended users in the report.</p> <p>9.58 An audit organization in a government entity should distribute audit reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. As appropriate, auditors should also distribute copies of the reports to other officials</p>	

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	who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports.	
<p>2450 – Overall Opinions When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information.</p>		
<p>2500 – Monitoring Progress The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.</p> <p>2500.A1 – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.</p>	<p>8.30 Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives. When planning the audit, auditors should ask management of the audited entity to identify previous engagements or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.</p>	<p>Audit activities following both IIA and GAGAS standards should establish a follow-up process that meets the requirement of the more detailed IIA Standard 2500, while not assuming management's responsibilities.</p> <p>GAGAS offers standards on monitoring in the planning phases of the next engagement.</p>
<p>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</p>		<p>Audit activities following both IIA and GAGAS standards should adhere to IIA Standard 2600 and communicate with senior management on unacceptable levels of risk.</p>

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<p>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.</p>		

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ABOUT THE IIA

The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 200,000 members from more than 170 countries and territories. The association's global headquarters is in Lake Mary, Fla. For more information, visit www.theiia.org.

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