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Changes to The IIA Standards: What Board Members and Executive Management Need to Know

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INTRODUCTION

The Institute of Internal Auditors (IIA) is the leading standard- and guidance-setting body for the global internal audit profession, with 150,000 members worldwide. The organization is the profession's global voice, recognized authority, chief advocate and principal educator. Its mission is to provide dynamic leadership for the internal auditing profession. As part of this, The IIA establishes Standards and promotes guidance following a rigorous exposure process.

On January 1, 2009, The IIA formally released its revised **International Professional Practices Framework**, which includes revisions to the organization's *International Standards for the Professional Practice of Internal Auditing*. Key changes to the Standards include the following:

- Six new Standards have been added.
- In virtually all of the Standards, The IIA has revised its wording, replacing "should" with "must."
- Additional requirements have been added to existing Standards.
- Interpretations have been added, incorporating components that previously were part of The IIA's practice advisories.

With the change from "should" to "must" in most of the Standards and the addition of six new Standards, internal audit functions must take action to achieve or remain in compliance. For some, only minimal changes may be necessary. For others, however, there may be a need for substantial changes to their internal audit plans and structures.

In this white paper, we provide a summary of the new and revised Standards, focusing on key areas that we believe will have the most significant impact on internal audit functions based on our knowledge and experience gained from working with organizations around the globe. Please note that the information in this white paper is not intended to be an exhaustive analysis of The IIA Standards; therefore, each organization should conduct its own analysis of the Standards and define changes required to comply with them. The Standards are available on The IIA's website: **http://www.theiia.org/guidance/standards-and-guidance/**. In addition, all internal audit functions should discuss the changes to the Standards as well as the incremental required actions to be taken with their management and audit committees as soon as possible.

In closing, we want to acknowledge the continued leadership provided by The IIA for our global profession. The IIA's Standards remain the most recognized guidelines for the practice of internal auditing. Protiviti has worked with companies around the world in assisting them with the implications of these revised Standards. Nearly 800 Protiviti professionals are members of The IIA, and we are proud to be a Principal Partner of the institute.

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REVIEWING THE CHANGES

The revised IIA Standards create new requirements around:

- IT governance
- Technology-based audit and other data analysis techniques
- Fraud risk management
- Ethics programs
- Limitation and adequacy of resources
- Records retention
- Quality assurance reviews
- Modifications to the internal audit charter
- Communication with the board of directors
- Prohibition from managing risk
- Conformance with The IIA Standards

Following is a summary of the changes in each of these key areas and actions internal audit functions should take to comply with them.

IT Governance

What's changed?

The IIA has introduced a new Standard, 2110.A2, which states:

> **The internal audit activity must assess whether the information technology governance of the organization sustains and supports the organization's strategies and objectives.**

Actions internal audit functions should take to comply

- Add IT governance as part of the audit universe and consider it in the annual risk assessment.
- Understand the model that IT currently uses to govern itself.
  - Val-IT
  - ITIL
  - COBIT
  - COSO
  - SOGP (Standards of Good Procedures)
  - ISO 27001 (Security)
  - CMM
  - Six Sigma
- Assess IT governance and determine how it supports the organization's business objectives and strategies.
- Use IT subject-matter experts or outside resources as needed, and re-evaluate capability of existing resources.
- Consider adopting the IT Governance Institute's five key elements of IT governance as the basis for reviewing the IT organization's governance framework.
  - Information strategic alignment
  - IT value delivery
  - Risk management
  - IT resource management
  - Performance measurement

  For more information, visit www.itgi.org.

Technology-based Audit and Other Data Analysis Techniques

What's changed?

Standard 1220.A2 has been revised to read as follows:

In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

Some internal audit functions make good use of data analysis tools and techniques already. However, few have implemented continuous auditing and monitoring. Of note, in the three years that Protiviti has conducted its Internal Audit Capabilities and Needs Survey, continuous auditing and monitoring along with computer-assisted audit techniques (CAATs) consistently have ranked among the top areas in need of improvement among internal auditors.[1]

Actions internal audit functions should take to comply

- Train personnel on data analysis tools such as ACL, Excel, Access and other appropriate tools; consider designating individuals as subject-matter experts.
- Revise audit methodology and expand audit assignment budgets to allow time to incorporate appropriate data analysis techniques.
- Purchase and utilize third-party applications and use outside resources, as needed.
- Coordinate with your IT organization, as needed.
- Consider continuous auditing and monitoring programs (e.g., implement a top-down, risk-based approach to identify the critical information and activities that need to be monitored on a frequent basis but are not, and add them to the audit plan).

Fraud Risk Management

What's changed?

The IIA has introduced a new Standard, 2120.A2, which states:

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

Since the release of *Managing the Business Risk of Fraud: A Practical Guide* in July 2008,[2] many internal auditors have evaluated capabilities to address their organizations' exposure to fraud risk through prevention, detection and monitoring efforts. In doing this, they have found they need to take immediate steps to strengthen their audit process knowledge in key areas in order to meet expectations of their board, senior management and shareholders regarding certain components of their fraud risk program.

Sarbanes-Oxley compliance efforts – while valuable in providing enhanced corporate transparency regarding the internal control structure – do not provide a "bulletproof vest" when it comes to fraud and misconduct. Furthermore, it is an unfortunate reality that amid difficult economic environments, the level of fraudulent activity increases. The IIA's new Standard underscores the likelihood many organizations may be relying more heavily upon their internal auditors to help manage fraud risk through execution of a fraud risk assessment, as well as financial and operational audits designed to help identify potential indicators of fraud risk.

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[1] For more information, read Protiviti's *2009 Internal Audit Capabilities and Needs Survey*, available at www.protiviti.com.
[2] Publication sponsored and co-developed by the American Certified Fraud Examiners (www.acfe.org), the American Institute of Certified Public Accountants (www.aicpa.org) and The Institute of Internal Auditors (www.theiia.org).

Actions internal audit functions should take to comply

- Perform a fraud risk assessment and evaluate the fraud risk management program by:
  - Assisting management in performing an assessment
  - Leveraging an existing assessment performed as part of Sarbanes-Oxley compliance
  - Performing an independent assessment
- Review "tone at the top" and elements of anti-fraud program.
- Determine style and scope of reporting.
- Coordinate activities with legal counsel, as appropriate.
- Utilize outside resources, as needed.
- Add fraud risk management to the audit universe and consider it in the annual internal audit risk assessment.
- Consider fraud risk during the planning for each engagement.
- Utilize data analysis and continuous auditing and monitoring to enhance detection.

Ethics Programs

What's changed?

Standard 2110 has been revised to read as follows:

The internal audit activity must evaluate the design, implementation and effectiveness of the organization's ethics-related objectives, programs and activities.

Since this Standard previously included the word "should" rather than "must," many internal audit functions have, to date, performed limited auditing of their organization's ethics programs. Generally, such auditing is limited to verifying the code of conduct circularization process.

Actions internal audit functions should take to comply

- Include the ethics program as a component of the audit universe and consider it in the annual risk assessment.
- Perform an ethics program assessment.
  - Determine scope and reporting style.
  - Review the adequacy of the written code of conduct.
  - Coordinate with the human resources and legal departments, as needed.
  - Include a review of the awareness program, policies, exception reporting, reinforcement and measurement of success.
  - Assess whether ethics and compliance-related programs address all the requirements established within the U.S. Federal Sentencing Guidelines.
  - Consider using the Open Compliance and Ethics Group (OCEG) framework to scope and assess the program.
  - Assess opportunity to leverage Sarbanes-Oxley "tone at the top" work, if applicable.

Limitation and Adequacy of Resources

What's changed?

Standard 2020 has been revised to read as follows:

> **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.**

Many internal audit functions already report this as part of their key performance indicator (KPI) statistics and quarterly plan status reporting. However, for those functions that don't already report resource limitations, this will be a new activity.

Actions internal audit functions should take to comply

- Ensure the size of, and investment in, the internal audit activity is appropriate for the organization's size and risk profile. (The IIA's GAIN Annual Benchmarking Study allows an organization to benchmark its internal audit activity by comparing its audit department's performance against the averages of similar organizations in peer groups.)[3]
- In assessing resource limitations, consider key skill shortages and expertise levels as well as the quantity of resources.
- Critically evaluate which skills are needed in residence and which ones can be contracted.
- Report resource limitations in audit committee presentations, including open positions and deferred work due to these constraints.
- Consider obtaining additional help from guest auditors or outside parties to fill the gap while waiting to fill open positions.
- Understand that resource skill needs will change over time as the organization's strategy, operations and risks change.

Records Retention

What's changed?

Standard 2330.A2 has been revised to read as follows:

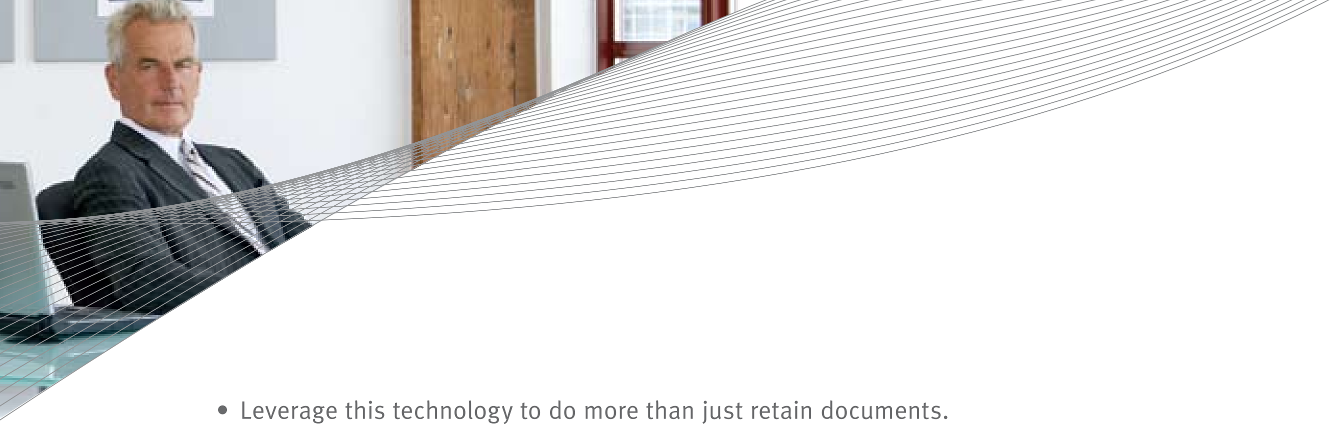
> **The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.**

The internal audit department policy and procedures manual typically is used to establish these parameters. An effective way to manage this requirement is through an electronic work paper tool. Of note, a number of industry studies suggest that one out of every three internal audit functions lacks such a tool.

Actions internal audit functions should take to comply

- Determine audit work paper retention requirements. Coordinate with legal counsel, as necessary.
- Work with legal counsel to consider the laws and regulations applicable to the industry in which the organization operates that require retention of specific documents.
- Assess cost and benefit of implementing an audit management system/electronic work paper tool to address records retention requirements.

[3] The Institute of Internal Auditors Global Audit Information Network (GAIN). For more information, visit www.theiia.org/guidance/benchmarking/.



- Leverage this technology to do more than just retain documents.
  - Improve audit workflow with a consistent, predictable approach.
  - Enhance review and approval process.
  - Facilitate risk assessment.
  - Document the annual audit plan.
  - House other tools and documents.
  - Allow access by other stakeholders.

Quality Assurance Reviews

What's changed?

Standards 1312 and 1320 have been revised to read as follows:

1312 – External Assessments
External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The chief audit executive must discuss with the board:

- **The need for more frequent external assessments; and**
- **The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.**

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.

Of note, several industry studies reveal that as many as half of internal audit organizations have yet to complete an external quality assurance review (QAR) as required by Standard 1312. The reporting of the internal component of the quality assurance and improvement program and discussion regarding the frequency of the external assessment and reviewer qualifications/independence are new requirements.

Actions internal audit functions should take to comply

- Establish, execute and improve a quality assurance and improvement program (QAIP).
- Obtain an external QAR if one has not been completed within the past five years.
- Discuss with the board of directors and senior management the following:
  - Frequency of performing QARs (every five years or more frequently)
  - Qualifications and independence of the external QAR provider
  - Results of your internal QAIP and external QAR

Modifications to the Internal Audit Charter

What's changed?

Standard 1000 has been revised to read as follows, while The IIA has introduced new Standard 1010:

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 Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter
The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the Standards must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the Standards with senior management and the board.

Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Actions internal audit functions should take to comply

- Revise the internal audit charter as necessary to reference the mandatory nature of the definition of internal audit, code of ethics and Standards.
- Internal audit functions that have a substantial focus on Sarbanes-Oxley activities will likely be out of compliance with the Standards. In these cases, internal audit will need to educate management and the board about the change in the Standards and the need to expand internal audit's efforts to cover other relevant objectives addressed by the COSO Internal Control – Integrated Framework. This ultimately would result in:
  - Expanding or redistributing the internal audit budget to address the need to have an expanded focus to include operational and compliance risks
  - Performing an updated and enhanced risk assessment to broaden the audit plan, as now required by the revised charter
  - Determining if different or additional resources are needed to deliver on the revised charter

Communication with the Board of Directors

What's changed?

The IIA has introduced a new Standard, 1111, which states:

The chief audit executive must communicate and interact directly with the board.

In addition, The IIA has revised Standard 1110 to read as follows:

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.

It is our experience that most internal audit functions present to the audit committee on a quarterly basis. There are multiple new requirements to communicate with the board that are embedded throughout the new Standards, including adequacy of resources, external and internal assessments, and organizational independence of internal audit.

Actions internal audit functions should take to comply

- Increase the chief audit executive's visibility with the board of directors (e.g., meet at least annually in executive session with the audit committee, broaden the focus of the audit plan on risk issues with which the board is concerned, etc.).

- Evaluate the Standards' communication requirements and implement them into the calendar of communications with the board of directors.
- Evaluate if the internal audit function's reporting style and approach should be revised and enhanced.
- Coordinate with legal counsel on reporting guidelines.

Prohibition from Managing Risk

What's changed?

Standard 2120.C3 has been revised to read as follows:

> **When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.**

Actions internal audit functions should take to comply

- Read The IIA's position paper, titled *The Role of Internal Auditing in Enterprisewide Risk Management*,[4] to determine the appropriate activities that internal audit should be involved in, as well as the activities internal audit should not be involved in, consistent with the revised Standard.

Conformance with The IIA Standards

What's changed?

The IIA has introduced a new Standard, 2430, which states:

> **Internal auditors may report that their engagements are "conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*," only if the results of the quality assurance and improvement program support the statement.**

This is not a new concept, as Standard 1321 (Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing") already addressed this point at the internal audit function level.

Actions internal audit functions should take to comply

- Only use the Conformance with The IIA Standards language if the internal audit function has met the quality assurance and improvement program standard requirement.

[4] Available at www.theiia.org.

CONSEQUENCES OF NONCOMPLIANCE

In many ways, The IIA's new Standards and the change in terminology from "should" to "must" in most of the existing Standards mark a sea change in The IIA's International Professional Practices Framework. Internal audit functions that to this point may have chosen to comply with "some" or even "most" of the Standards may now speculate about the consequences of failing to comply with all of them. The fact is that, given the current regulatory environment, organizations could be penalized directly and indirectly in several ways.

First, any company listed on the New York Stock Exchange (NYSE) must have an internal audit function, according to the exchange's listing requirements. The NYSE states the following in additional commentary on this rule:

> Listed companies must maintain an internal audit function to provide management and the audit committee with ongoing assessments of the company's risk management processes and system of internal controls. A company may choose to outsource this function to a third-party service provider other than its independent auditor.

Since The IIA is the global leader for the profession and, through its Standards, promulgates guidelines and leading practices for internal audit functions, NYSE-listed companies that are not in compliance with the Standards could face the risk of being out of compliance with the NYSE requirements.

More broadly, in their respective guidelines on Section 404 compliance, both the Securities and Exchange Commission (SEC) in its July 2007 interpretive guidance and the Public Company Accounting Oversight Board (PCAOB) in Auditing Standard No. 5 allow reporting companies to rely on the work of internal auditors to support the external audit. However, if an organization's internal audit function does not comply with The IIA Standards, there is a higher likelihood that the external auditor will discount or dismiss internal audit's work to support the attestation of the year-end financial statements and internal control over financial reporting. This would result in more time required by the external auditor to perform the attestation and, in turn, higher audit fees.

Conversely, if the internal audit department is in compliance with The IIA Standards and possesses the requisite skills, it can perform some of the work the external auditor might otherwise perform and enable the organization to save significant time and costs in regard to the external auditor's work. The bottom line is that, with regard to year-end financial reporting and Sarbanes-Oxley compliance, to the extent that the internal audit function is skilled and qualified to perform satisfactorily in testing management's assertions regarding the financial statements and internal control over financial reporting, the external auditors can rely on internal audit's testing work. The skills and qualifications of the internal audit function can be assessed, at least in part, through its conformance with The IIA Standards.

Finally, there is little question that adherence to the Standards results in stronger corporate governance and an organization's enhanced ability to monitor its internal processes and controls. Boards are looking for assurance in critical risk areas and internal audit is one crucial source of such assurance. The IIA Standards are all about maximizing the effectiveness of the internal audit activity. This is particularly important in areas pertaining to fraud risk assessment and management. Fraud – both internally and externally driven – is an ongoing challenge for organizations, and even more so during challenging economic conditions. New IIA Standard 2120.A2 is designed to help mitigate this risk, and companies that comply with this and the other IIA Standards will have a clear advantage in detecting and deterring fraud in their organizations.

Armed with information on the new Standards, board members will want to inquire about the status of them on all of the boards they serve to ensure a consistency of their governance style and demonstrate a clear and actionable interest in discharging their responsibilities.

QUESTIONS FOR BOARDS OF DIRECTORS, AUDIT COMMITTEES AND EXECUTIVE MANAGEMENT TO CONSIDER

Given The IIA's new and revised Standards, boards of directors and their audit committees should consider a number of questions and consult with management, as needed. Just some of these questions include:

- Has an external quality assurance review of our internal audit department been performed? If so, what were the results?
- How does the internal audit department internally confirm its conformance to The IIA Standards?
- Has internal audit modified its charter to reflect the implications of the changes in the Standards?
- Does the chief audit executive interact sufficiently with the board of directors?
- Has the board and/or the audit committee outlined its expectations of the internal audit activity and approved the internal audit plan?
- Does internal audit plan on performing an IT governance review? How will this be done?
- How will internal audit meet the requirement to assess fraud risk and management's process to manage those risks?
- How do we assure that internal audit does not take on any responsibility for managing risks for the organization?
- Is internal audit sufficiently independent from management? Is there an open line to the board or audit committee for the internal audit function to report matters requiring escalation?
- Does internal audit report the extent of resources required to complete the internal audit plan and the impact of resource constraints in its periodic reporting to the board of directors?
- Does internal audit review the design, implementation and effectiveness of the organization's ethics program?

IN CLOSING

In light of the new and revised Standards, chief audit executives, boards of directors and their audit committees, executive management, and internal audit professionals should undertake the following activities for their organizations:

- Read and understand the revised Standards.
- Determine their impact on the organization's internal audit function.
- Take steps to evaluate IT governance in the organization.
- Perform a fraud risk assessment if one has not been conducted already, and assess how the organization is managing its fraud risks.
- Evaluate current resources to ensure the organization has enough as well as the right ones in the right places.
- Consider the implications of the new and revised Standards on the timing of the internal audit function's next external quality assessment.
- Update the organization's internal audit charter.
- Incorporate the new required communications into the audit committee calendar.

APPENDIX – IIA STANDARDS COMPLIANCE CHECKLIST

The following checklist, which is derived from The IIA's *International Standards for the Professional Practice of Internal Auditing*, can be used to compare an organization's internal audit function for compliance against the Standards.*

	Compliance				
Attribute Standards	**YES**	**YES (with exceptions)**	**NO**	**N/A**	**NOTES**
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 Definition of Internal Auditing, the Code of Ethics, and the Standards.					
The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.					
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.					
1000.C1 – The nature of consulting services must be defined in the internal audit charter.					
1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter					
The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the Standards must be recognized in the internal audit charter.					
The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the Standards with senior management and the board.					
1100 – Independence and Objectivity					
The internal audit activity must be independent, and internal auditors must be objective in performing their work.					
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.					
1110.A1 – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.					
1111 – Direct Interaction with the Board					
The chief audit executive must communicate and interact directly with the board.					

	Compliance				
Attribute Standards	**YES**	**YES** (with exceptions)	**NO**	**N/A**	**NOTES**
1120 – Individual Objectivity					
Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.					
1130 – Impairment to Independence or Objectivity					
If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.					
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.					
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.					
1130.C1 – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.					
1130.C2 – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.					
1200 – Proficiency and Due Professional Care					
Engagements must be performed with proficiency and due professional care.					
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.					
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.					
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.					
1210.A3 – Internal auditors must have sufficient knowledge of key information 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.					
1210.C1 – The chief audit executive must decline the consulting engagement or 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.					

	Compliance				
Attribute Standards	YES	YES (with exceptions)	NO	N/A	NOTES
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.					
1220.A1 – Internal auditors must exercise due professional care by considering the: – Extent of work needed to achieve the engagement's objectives; – 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; and – Cost of assurance in relation to potential benefits.					
1220.A2 – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.					
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.					
1220.C1 – Internal auditors must exercise due professional care during a consulting engagement by considering the: – Needs and expectations of clients, including the nature, timing, and communication of engagement results; – Relative complexity and extent of work needed to achieve the engagement's objectives; and – Cost of the consulting engagement in relation to the potential benefits.					
1230 – Continuing Professional Development					
Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.					
1300 – Quality Assurance and Improvement Program					
The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.					
1310 – Requirements of the Quality Assurance and Improvement Program					
The quality assurance and improvement program must include both internal and external assessments.					

Attribute Standards	Compliance: YES	YES (with exceptions)	NO	N/A	NOTES
1311 – Internal Assessments					
Internal assessments must include ongoing monitoring of the performance of the internal audit activity.					
Internal assessments must include periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.					
1312 – External Assessments					
External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The chief audit executive must discuss with the board: – The need for more frequent external assessments; and – The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.					
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.					
1321 – Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"					
The chief audit executive may state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the quality assurance and improvement program support this statement.					
1322 – Disclosure of Nonconformance					
When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards 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.					

	Compliance				
Performance Standards	**YES**	**YES** (with exceptions)	**NO**	**N/A**	**NOTES**
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.					
2010 – Planning					
The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.					
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.					
2010.C1 – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.					
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.					
2030 – Resource Management					
The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.					
2040 – Policies and Procedures					
The chief audit executive must establish policies and procedures to guide the internal audit activity.					
2050 – Coordination					
The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.					
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. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.					
2100 – Nature of Work					
The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.					

	Compliance				
Performance Standards	YES	YES (with exceptions)	NO	N/A	NOTES
2110 – Governance					
The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives: – Promoting appropriate ethics and values within the organization; – Ensuring effective organizational performance management and accountability; – Communicating risk and control information to appropriate areas of the organization; and – Coordinating the activities of and communicating information among the board, external and internal auditors, and management.					
2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.					
2110.A2 – The internal audit activity must assess whether the information technology governance of the organization sustains and supports the organization's strategies and objectives.					
2110.C1 – Consulting engagement objectives must be consistent with the overall values and goals of the organization.					
2120 – Risk Management					
The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.					
2120.A1 – The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the: – Reliability and integrity of financial and operational information; – Effectiveness and efficiency of operations; – Safeguarding of assets; and – Compliance with laws, regulations and contracts.					
2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.					
2120.C1 – During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.					
2120.C2 – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes.					
2120.C3 – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.					
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.					

	Compliance				
Performance Standards	YES	YES (with exceptions)	NO	N/A	NOTES
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: – Reliability and integrity of financial and operational information; – Effectiveness and efficiency of operations; – Safeguarding of assets; and – Compliance with laws, regulations, and contracts.					
2130.A2 – Internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organization.					
2130.A3 – Internal auditors should review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended.					
2130.C1 – During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.					
2130.C2 – Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization's control processes.					
2200 – Engagement Planning					
Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.					
2201 – Planning Considerations					
In planning the engagement, internal auditors must consider: – The objectives of the activity being reviewed and the means by which the activity controls its performance; – The significant risks to the activity, its 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 risk management and control processes compared to a relevant control framework or model; and – The opportunities for making significant improvements to the activity's risk management and control processes.					
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.					
2201.C1 – Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.					
2210 – Engagement Objectives					
Objectives must be established for each engagement.					
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.					

	Compliance				
Performance Standards	YES	YES (with exceptions)	NO	N/A	NOTES
2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.					
2210.A3 – Adequate criteria are needed to evaluate controls. Internal auditors must ascertain the extent to which management 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 work with management to develop appropriate evaluation criteria.					
2210.C1 – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.					
2220 – Engagement Scope					
The established scope must be sufficient to satisfy the objectives of the engagement.					
2220.A1 – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.					
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.					
2220.C1 – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.					
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.					
2240 – Engagement Work Program					
Internal auditors must develop and document work programs that achieve the engagement objectives.					
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.					
2240.C1 – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.					
2300 – Performing the Engagement					
Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.					
2310 – Identifying Information					
Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.					

	Compliance				
Performance Standards	YES	YES (with exceptions)	NO	N/A	NOTES
2320 – Analysis and Evaluation					
Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.					
2330 – Documenting Information					
Internal auditors must document relevant information to support the conclusions and engagement results.					
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.					
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.					
2330.C1 – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.					
2340 – Engagement Supervision					
Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.					
2400 – Communicating Results					
Internal auditors must communicate the engagement results.					
2410 – Criteria for Communicating					
Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.					
2410.A1 – Final communication of engagement results must, where appropriate, contain internal auditors' overall opinion and/or conclusions.					
2410.A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.					
2410.A3 – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.					
2410.C1 – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.					
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.					

	Compliance				
Performance Standards	YES	YES (with exceptions)	NO	N/A	NOTES
2430 – Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"					
Internal auditors may report that their engagements are "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing," only if the results of the quality assurance and improvement program support the statement.					
2431 – Engagement Disclosure of Nonconformance					
When nonconformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose the: – Principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved; – Reason(s) for nonconformance; and – Impact of nonconformance on the engagement and the communicated engagement results.					
2440 – Disseminating Results					
The chief audit executive must communicate results to the appropriate parties.					
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.					
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: – Assess the potential risk to the organization; – Consult with senior management and/or legal counsel as appropriate; and – Control dissemination by restricting the use of the results.					
2440.C1 – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.					
2440.C2 – During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.					
2500 – Monitoring Progress					
The chief audit executive must establish and maintain a system to monitor the disposition of the results communicated to management.					
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.					
2500.C1 – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.					
2600 – Resolution of Senior Management's Acceptance of Risks					
When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive must report the matter to the board for resolution.					

ABOUT PROTIVITI

Protiviti (**www.protiviti.com**) is a global business consulting and internal audit firm composed of experts specializing in risk, advisory and transaction services. The firm helps solve problems in finance and transactions, operations, technology, litigation, governance, risk, and compliance. Protiviti's highly trained, results-oriented professionals provide a unique perspective on a wide range of critical business issues for clients in the Americas, Asia-Pacific, Europe and the Middle East.

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One of the key features about Protiviti is that we are not an audit/accounting firm, thus there is never an independence issue in the work we do for clients. Protiviti is able to use all of our consultants to work on internal audit projects – this allows us at any time to bring in our best experts in various functional and process areas. In addition, Protiviti can conduct an independent review of a company's internal audit function – such a review is called for every five years under standards from The Institute of Internal Auditors.

Among the services we provide are:

– Internal Audit Outsourcing and Co-Sourcing

– Financial Control and Sarbanes-Oxley Compliance

– Internal Audit Quality Assurance Reviews

For more information about Protiviti's internal audit solutions, please contact:

Robert B. Hirth Jr.
Executive Vice President – Global Internal Audit
Protiviti
+1.415.402.3621 (direct)
robert.hirth@protiviti.com

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