“Red Book”
& Audit Process @ 35,000 Feet
Emphasize the Basics, Elevate the Standards
November 27, 2018
9:50 a.m. to 10:40 a.m.

Kristofer Sullivan, Inspector General
Florida Department of Transportation

Why have an International Professional Practices Framework?

• Provide Structure and Organization
• For all guidance
• Make it easily accessible
Who are they for?

- Governments
- Regulators
- Businesses
- International Organizations, and academia

How are they developed?

- Internal Auditing Standards Board of IIA–Global
- IIA, Big 4 firms, US Government Accountability Office, chartered accountants, external auditors, and practicing internal auditors
Outline View

- Mandatory
  - Core Principles
  - Definition
  - Code of Ethics
  - Standards
- Recommended Guidance
  - Implementation Guidance
  - Supplemental Guidance

Mandatory v. Recommended

<table>
<thead>
<tr>
<th>Mandatory</th>
<th>Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rigorous development and adoption process.</td>
<td>Issuance process is shorter</td>
</tr>
<tr>
<td>Public Exposure</td>
<td>No Public Exposure</td>
</tr>
<tr>
<td>Conformance is critical</td>
<td>Conformance is strongly encouraged</td>
</tr>
</tbody>
</table>
Mission of Internal Audit

• To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.
  – Risk-Based Assurance
  – Risk-Based Advice
  – Risk-Based and Insight

Core Principals

• Demonstrates integrity.
• Demonstrates competence and due professional care.
• Is objective and free from undue influence (independent).
• Aligns with the strategies, objectives, and risks of the organization.
• Is appropriately positioned and adequately resourced.

Core Principals

• Demonstrates quality and continuous improvement.
• Communicates effectively.
• Provides risk-based assurance.
• Is insightful, proactive, and future-focused.
• Promotes organizational improvement.
Definition of Internal Auditing

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

Code of Ethics

- Integrity
- Objectivity
- Confidentiality
- Competency
**Code of Ethics: Integrity**
Internal Auditors SHALL:
✓ Perform work with Honesty, Diligence, and Responsibility.
✓ Observe the law and make disclosures
✓ Not knowingly be party to an illegal activity
✓ Not engage in acts discreditable to the profession
✓ Respect and contribute to the legitimate and ethical objectives of our organization

**Code of Ethics: Objectivity**
Internal Auditors SHALL:
✓ Not participate in any activity or relationship that may impair, or be presumed to impair your unbiased assessment.
✓ Not accept anything that may impair, or be presumed to impair your professional judgement.
✓ Disclose all material facts known to you that, if not disclosed, may distort the reporting of activities under review.

**Code of Ethics: Confidentiality**
Internal Auditors SHALL:
✓ Be prudent in the use and protection of information acquired in the course of your duties.
✓ Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of your organization.
**Code of Ethics: Competency**

Internal Auditors SHALL:

- Engage only in those services for which you have the necessary knowledge, skills, and experience.
- Perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- Continually improve your proficiency and the effectiveness and quality of your services.

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**The Standards**

- **Attribute**
  - Define characteristics of the IA organization and individuals
- **Performance**
  - Describe what we do and how should do it
- **Implementation**
  - Augment both Attribute and Performance standards based on engagement type

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**Attribute Standards**

1000 – Purpose, Authority and Responsibility
1100 – Independence and Objectivity
1200 – Proficiency and Due Professional Care
1300 – Quality Assurance and Improvement Program
Performance Standards
2000 – Managing the Internal Audit Activity
2100 – Nature of Work
2200 – Engagement Planning
2300 – Performing the Engagement
2400 – Communicating Results
2500 – Monitoring Progress
2600 – Communicating the Acceptance of Risks

Standards: Engagement Process
2200 – Planning
- 2210 - Objectives
- 2220 – Scope
- 2230 – Resource Allocation
- 2240 – Work Program

2300 – Performing
- 2310 – Identify Information
- 2320 – Analysis and Evaluation
- 2330 – Documenting Information
- 2340 – Supervision

2400 – Results
- 2410 – Criteria for Communicating
- 2420 – Quality of Communications
- 2430 – Use of "Conformance..."
- 2440 – Disseminating Results
- 2450 – Overall Opinions

Assurance Services
User
Internal Auditor
Process Owner

TALLAHASSEE CHAPTER
Consulting Services

Assurance v. Consulting

<table>
<thead>
<tr>
<th>Assurance</th>
<th>Consulting</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 – Parties</td>
<td>2 - Party</td>
</tr>
<tr>
<td>Client(s): Executive Management; Board; Audit Committee</td>
<td>Client: Operating Management</td>
</tr>
<tr>
<td>Formal and Explicit</td>
<td></td>
</tr>
<tr>
<td>Report and Follow-up are mandatory</td>
<td></td>
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</tbody>
</table>

Assurance v. Consulting

<table>
<thead>
<tr>
<th>Assurance Assess</th>
<th>Consulting Provides</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequacy of Internal Control</td>
<td>Assistance in design of corrective actions</td>
</tr>
<tr>
<td>Adequacy of Enterprise Risk Management</td>
<td>Controls needed for a new systems design</td>
</tr>
<tr>
<td>Adequacy of Governance Process</td>
<td>Benchmarking</td>
</tr>
<tr>
<td>Compliance with Laws or Regulations</td>
<td>Improvement of efficiency or effectiveness</td>
</tr>
</tbody>
</table>
Consulting Services

Common Types of Consulting Services

<table>
<thead>
<tr>
<th>Formal Engagements</th>
<th>Facilitation Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal Engagements</td>
<td>Analytics Services</td>
</tr>
<tr>
<td>Special Engagements</td>
<td>Training and Coaching</td>
</tr>
<tr>
<td>Emergency Engagements</td>
<td>Remediation Services</td>
</tr>
</tbody>
</table>

Consulting System

1100 – Independence and Objectivity

1130 – Impairment to Independence or Objectivity

1130.A1 – Internal auditors must refrain ....

1130.C1 – Internal auditors may provide ....

Conformance with Mandatory Elements of IPPF

Code of Ethics + Standards = Conformance
Implementation Guides

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Implementation Guides

Standard 1100 – Independence and Objectivity

Getting Started

Considerations for Implementation

Considerations for Demonstrating Conformance

Multiple items may indicate conformance with the standard, including the internal audit charter itself; an organization chart with reporting responsibilities; an internal audit policy manual that includes policies on independence, objectivity, addressing conflicts, and performance evaluation; training records; and conflict-of-interest disclosure forms. If applicable, documentation showing disclosure of impairments, consistent with Standard 1120 – Impairment to Independence or Objectivity, may also demonstrate conformance.
Supplemental Guides
• Practice Guides
  – General
  – Financial Services
  – Public Sector
• Global Technology Audit Guides (GTAGs)
• Guides to the Assessment of IT Risks (GAIT)

Practice Guides - General
• Assisting Small Internal Audit Activities in Implementing the International Standards for the Professional Practice of Internal Auditing
• Audit Reports: Communicating Assurance Results
• Auditing the Control Environment
• Business Continuity Management
• Engagement Planning: Assessing Fraud Risks
• Engagement Planning: Establishing Objectives and Scope August
• Internal Audit and the Second Line of Defense

Practice Guides - Financial
• Auditing Capital Adequacy and Stress Testing for Banks
• Auditing Model Risk Management
• Auditing Liquidity Risk: An Overview
Practice Guides – Public Sector
- Assessing Organizational Governance in the Public Sector
- Auditing Grants in the Public Sector
- Creating an Internal Audit Competency Process for the Public Sector

Global Technology Audit Guides (GTAGs)
- Assessing Cybersecurity Risk: Roles of the Three Lines of Defense
- Auditing Application Controls (Previously GTAG 8)
- Auditing Insider Threat Programs
- Auditing IT Governance (Previously GTAG)
- Auditing IT Projects (Previously GTAG 12)

Guide to the Assessment of IT Risk (GAIT)
- GAIT Methodology
- GAIT for IT General Control Deficiency Assessment
- GAIT for Business and IT Risk
WHY CONFORMANCE MATTERS

Introduction

Internal audit is conducted in diverse legal and cultural environments for organizations that vary in purpose, size, complexity, and structure, and by persons within or outside the organization. Yet, no matter the environment, internal audit:

- Needs to meet the board’s expectations
- Needs to interpret the organization’s risks
- Needs to understand that the assurance need is based on the organization’s core mission, purpose, and mandate
- Needs to keep up with management’s expectations

KEY TAKEAWAYS

1. Internal audit is an essential service to an organization.
2. Internal audit is conducted in diverse environments.
3. Internal audit must meet the board’s expectations.
4. Internal audit must interpret the organization’s risks.
5. Internal audit must understand the organization’s core mission, purpose, and mandate.
6. Internal audit must keep up with management’s expectations.

Audit Competency

The IIA’s Global Internal Audit Competency Framework

INTERNAL AUDIT COMPETENCIES

Understanding and building competencies for success.
For me, the five scariest words in the English language are: “Where we’re the internal auditors?” The question usually follows a high profile control or risk management failure. We can audit anything, but not everything. Just keep a laser focus on high risk areas!

Thank you

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