Introduction

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.

Internal audit activities are performed in diverse legal and cultural environments; within organizations that vary in purpose, size, and structure; and by persons within or outside the organization. These differences may affect the practice of internal auditing in each environment. However, compliance with the Standards for the Professional Practice of Internal Auditing (Standards) is essential if the responsibilities of internal auditors are to be met.
The purpose of the Standards is to:

1. Delineate basic principles that represent the practice of internal auditing as it should be.
2. Provide a framework for performing and promoting a broad range of value-added internal audit activities.
3. Establish the basis for the measurement of internal audit performance.
4. Foster improved organizational processes and operations.

The Standards consist of Attribute Standards (the 1000 Series), Performance Standards (the 2000 Series), and Implementation Standards (nnnn.Xn). The Attribute Standards address the characteristics of organizations and individuals performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be measured. The Attribute and Performance Standards apply to internal audit services in general. The Implementation Standards apply the Attribute and Performance Standards to specific types of engagements (for example, a compliance audit, a fraud investigation, or a control self-assessment project).

There is one set of Attribute and Performance Standards, however there may be multiple sets of Implementation Standards: a set for each of the major types of internal audit activity. Initially, the Implementation Standards are being established for assurance activities (noted by an "A" following the Standard number, e.g., 1130.A1) and consulting activities (noted by a "C" following the Standard number, e.g., nnnn.C1).

The Standards are part of the Professional Practices Framework. This framework was proposed by the Guidance Task Force and approved by The IIA's Board of Directors in June 1999. This framework includes the Definition of Internal Auditing, the Code of Ethics, the Standards, and other guidance. The Standards incorporate the guidance previously contained in the "The Red Book," recasting it into the new format proposed by the Guidance Task Force and updating it as recommended in the Task Force's report, A Vision for the Future.

The Standards employ terms that have been given specific meanings that are included in the Glossary.

The Internal Auditing Standards Board is committed to extensive consultation in the preparation of the Standards. Prior to issuing any document, the Standards Board issues exposure drafts internationally for public comment. The Standards Board also seeks those with special expertise or interests for consultation where necessary. The development of standards is an ongoing process. The Standards Board welcomes input from IIA members and other interested parties to identify emerging issues requiring new standards or revision to current standards. Suggestions should be sent to:

The Institute of Internal Auditors
Manager, Technical Services
247 Maitland Ave.
Altamonte Springs, Florida 32701
USA
E-mail: standards@theiia.org

Additional guidance regarding how the Standards might be put into practice can be found in Practice Advisories that are issued by the Professional Issues Committee.

ATTRIBUTE STANDARDS
1000 - Purpose, Authority, and Responsibility
The purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the Standards, and approved by the board.

1000.A1 - The nature of assurance services provided to the organization should be defined in the audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances should also be defined in the charter

1000.C1 - The nature of consulting services should be defined in the audit charter.

1100 - Independence and Objectivity
The internal audit activity should be independent, and internal auditors should be objective in performing their work.

1110 - Organizational Independence
The chief audit executive should report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.

1110.A1 - The internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results.

1120 - Individual Objectivity
Internal auditors should have an impartial, unbiased attitude and avoid conflicts of interest.

1130 - Impairments to Independence or Objectivity
If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

1130.A1 - Internal auditors should refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an auditor provides assurance services for an activity for which the auditor had responsibility within the previous year.

1130.A2 - Assurance engagements for functions over which the chief audit executive has responsibility should 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 should be made to the engagement client prior to accepting the engagement.

1200 - Proficiency and Due Professional Care
Engagements should be performed with proficiency and due professional care.

1210 - Proficiency
Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

1210.A1 - The chief audit executive should obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2 - The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.
1210.C1 - The chief audit executive should decline the consulting engagement or obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 - Due Professional Care
Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1 - The internal auditor should 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 risk management, control, and governance processes.
● Probability of significant errors, irregularities, or noncompliance.
● Cost of assurance in relation to potential benefits.

1220.A2 - The internal auditor should 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 - The internal auditor should 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.
● Cost of the consulting engagement in relation to potential benefits.

1230 - Continuing Professional Development
Internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development.

1300 - Quality Assurance and Improvement Program
The chief audit executive should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. The program should be designed to help the internal auditing activity add value and improve the organization’s operations and to provide assurance that the internal audit activity is in conformity with the Standards and the Code of Ethics.

1310 - Quality Program Assessments
The internal audit activity should adopt a process to monitor and assess the overall effectiveness of the quality program. The process should include both internal and external assessments.

1311 - Internal Assessments
Internal assessments should include:

● Ongoing reviews of the performance of the internal audit activity; and
Periodic reviews performed through self-assessment or by other persons within the organization, with knowledge of internal auditing practices and the *Standards*.

**1312 - External Assessments**
External assessments, such as quality assurance reviews, should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.

**1320 - Reporting on the Quality Program**
The chief audit executive should communicate the results of external assessments to the board.

**1330 - Use of "Conducted in Accordance with the Standards"**
Internal auditors are encouraged to report that their activities are "conducted in accordance with the *Standards for the Professional Practice of Internal Auditing.*” However, internal auditors may use the statement only if assessments of the quality improvement program demonstrate that the internal audit activity is in compliance with the *Standards*.

**1340 - Disclosure of Noncompliance**
Although the internal audit activity should achieve full compliance with the *Standards* and internal auditors with the *Code of Ethics*, there may be instances in which full compliance is not achieved. When noncompliance impacts the overall scope or operation of the internal audit activity, disclosure should be made to senior management and the board.

**PERFORMANCE STANDARDS**

**2000 - Managing the Internal Audit Activity**
The chief audit executive should effectively manage the internal audit activity to ensure it adds value to the organization.

**2010 - Planning**
The chief audit executive should 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 should be based on a risk assessment, undertaken at least annually. The input of senior management and the board should 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. Those engagements that have been accepted should be included in the plan.

**2020 - Communication and Approval**
The chief audit executive should communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and to the board for review and approval. The chief audit executive should also communicate the impact of resource limitations.

**2030 - Resource Management**
The chief audit executive should ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

**2040 - Policies and Procedures**
The chief audit executive should 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 relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060 - Reporting to the Board and Senior Management
The chief audit executive should report periodically to the board and senior management on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan. Reporting should also include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the board and senior management.

2100 - Nature of Work
The internal audit activity evaluates and contributes to the improvement of risk management, control and governance systems.

2110 - Risk Management
The internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

2110.A1 - The internal audit activity should monitor and evaluate the effectiveness of the organization's risk management system.

2110.A2 - The internal audit activity should 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.
- Compliance with laws, regulations, and contracts.

2110.C1 - During consulting engagements, internal auditors should address risk consistent with the engagement’s objectives and should be alert to the existence of other significant risks.

2110.C2 - Internal auditors should incorporate knowledge of risks gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.

2120 - Control
The internal audit activity should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2120.A1 - Based on the results of the risk assessment, the internal audit activity should evaluate the adequacy and effectiveness of controls encompassing the organization's governance, operations, and information systems. This should include:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations.
- Safeguarding of assets.
- Compliance with laws, regulations, and contracts.

2120.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.

2120.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.
Adequate criteria are needed to evaluate controls. Internal auditors should ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors should use such criteria in their evaluation. If inadequate, internal auditors should work with management to develop appropriate evaluation criteria.

During consulting engagements, internal auditors should address controls consistent with the engagement's objectives and should be alert to the existence of any significant control weaknesses.

Internal auditors should incorporate knowledge of controls gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.

The internal audit activity should contribute to the organization's governance process by evaluating and improving the process through which (1) values and goals are established and communicated, (2) the accomplishment of goals is monitored, (3) accountability is ensured, and (4) values are preserved.

Internal auditors should review operations and programs to ensure consistency with organizational values.

Consulting engagement objectives should be consistent with the overall values and goals of the organization.

In planning the engagement, internal auditors should 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 systems compared to a relevant control framework or model.
- The opportunities for making significant improvements to the activity's risk management and control systems.

Internal auditors should establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding should be documented.

The engagement's objectives should address the risks, controls, and governance processes associated with the activities under review.

When planning the engagement, the internal auditor should identify and assess risks relevant to the activity under review. The engagement objectives should reflect the results of the risk assessment.

The internal auditor should consider the probability of significant errors, irregularities, noncompliance, and other exposures when developing the engagement objectives.

Consulting engagement objectives should address risks, controls, and governance processes to the extent agreed upon with the client.
The established scope should be sufficient to satisfy the objectives of the engagement.

2220.A1 - The scope of the engagement should include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

2220.C1 - In performing consulting engagements, internal auditors should 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 should be discussed with the client to determine whether to continue with the engagement.

2230 - Engagement Resource Allocation
Internal auditors should determine appropriate resources to achieve engagement objectives. Staffing should be based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

2240 - Engagement Work Program
Internal auditors should develop work programs that achieve the engagement objectives. These work programs should be recorded.

2240.A1 - Work programs should establish the procedures for identifying, analyzing, evaluating, and recording information during the engagement. The work program should be approved prior to the commencement of work, 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 should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives.

2310 - Identifying Information
Internal auditors should identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

2320 - Analysis and Evaluation
Internal auditors should base conclusions and engagement results on appropriate analyses and evaluations.

2330 - Recording Information
Internal auditors should record relevant information to support the conclusions and engagement results.

2330.A1 - The chief audit executive should control access to engagement records. The chief audit executive should 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 should develop retention requirements for engagement records. These retention requirements should be consistent with the organization’s guidelines and any pertinent regulatory or other requirements.

2330.C1 - The chief audit executive should develop policies governing the custody and retention of engagement records, as well as their release to internal and external parties. These policies should be consistent with the organization’s guidelines and any pertinent regulatory or other requirements.

2340 - Engagement Supervision
Engagements should be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

2400 - Communicating Results
Internal auditors should communicate the engagement results promptly.

2410 - Criteria for Communicating
Communications should include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

2410.A1 - The final communication of results should, where appropriate, contain the internal auditor's overall opinion.

2410.A2 - Engagement communications should acknowledge satisfactory performance.

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 should 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 should communicate corrected information to all individuals who received the original communication.

2430 - Engagement Disclosure of Noncompliance with the Standards
When noncompliance with the Standards impacts a specific engagement, communication of the results should disclose the:

- Standard(s) with which full compliance was not achieved,
- Reason(s) for noncompliance, and
- Impact of noncompliance on the engagement.

2440 - Disseminating Results
The chief audit executive should disseminate results to the appropriate individuals.

2440.A1 - The chief audit executive is responsible for communicating the final results to individuals who can ensure that the results are given due consideration.

2440.C1 - The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2 - During consulting engagements, risk management, control, and governance issues may be identified. Whenever these issues are significant to the organization, they should be communicated to senior management and the board.

2500 - Monitoring Progress
The chief audit executive should establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1 - The chief audit executive should 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 should monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 - Management's Acceptance of Risks
When the chief audit executive believes that senior management has accepted a level of residual risk that is unacceptable to the organization, the chief audit executive should discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive and senior management should report the matter to the board for resolution.

**Glossary**

**Add Value** - Organizations exist to create value or benefit to their owners, other stakeholders, customers, and clients. This concept provides purpose for their existence. Value is provided through their development of products and services and their use of resources to promote those products and services. In the process of gathering data to understand and assess risk, internal auditors develop significant insight into operations and opportunities for improvement that can be extremely beneficial to their organization. This valuable information can be in the form of consultation, advice, written communications, or through other products all of which should be properly communicated to the appropriate management or operating personnel.

**Adequate Control** - Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

**Assurance Services** - An objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

**Board** - A board of directors, audit committee of such boards, head of an agency or legislative body to whom internal auditors report, board of governors or trustees of a nonprofit organization, or any other designated governing bodies of organizations.

**Charter** - The charter of the internal audit activity is a formal written document that defines the activity’s purpose, authority, and responsibility. The charter should (a) establish the internal audit activity’s position within the organization; (b) authorize access to records, personnel, and physical properties relevant to the performance of engagements; and (c) define the scope of internal audit activities.

**Chief Audit Executive** - Top position within the organization responsible for internal audit activities. In a traditional internal audit activity, this would be the internal audit director. In the case where internal audit activities are obtained from outside service providers, the chief audit executive is the person responsible for overseeing the service contract and the overall quality assurance of these activities, reporting to senior management and the board regarding internal audit activities, and follow-up of engagement results. The term also includes such titles as general auditor, chief internal auditor, and inspector general.

**Code of Ethics** - The purpose of the Code of Ethics of The Institute of Internal Auditors (IIA) is to promote an ethical culture in the global profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk, control, and governance. The Code of Ethics applies to both individuals and entities that provide internal audit services.

**Compliance** - The ability to reasonably ensure conformity and adherence to organization policies, plans, procedures, laws, regulations, and contracts.

**Conflict of Interest** - Any relationship that is or appears to be not in the best interest of the organization. A conflict of interest would prejudice an individual’s ability to perform his or her duties and responsibilities objectively.

**Consulting Services** - Advisory and related client service activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve an organization’s operations. Examples include counsel, advice, facilitation, process design, and training.

**Control** - Any action taken by management, the board, and other parties to enhance risk management and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

**Control Environment** - The attitude and actions of the board and management regarding the significance of control within the organization. The control environment provides the discipline and
structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management’s philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

**Control Processes** - The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.

**Engagement** - A specific internal audit assignment, task, or review activity, such as an internal audit, Control Self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

**Engagement Objectives** - Broad statements developed by internal auditors that define intended engagement accomplishments.

**Engagement Work Program** - A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

**External Service Provider** - A person or firm, independent of the organization, who has special knowledge, skill, and experience in a particular discipline. Outside service providers include, among others, actuaries, accountants, appraisers, environmental specialists, fraud investigators, lawyers, engineers, geologists, security specialists, statisticians, information technology specialists, external auditors, and other auditing organizations. The board, senior management, or the chief audit executive may engage an outside service provider.

**Fraud** - Any illegal acts characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the application of threat of violence or of physical force. Frauds are perpetrated by individuals and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

**Governance Process** - The procedures utilized by the representatives of the organization’s stakeholders (e.g., shareholders, etc.) to provide oversight of risk and control processes administered by management.

**Impairments** - Impairments to individual objectivity and organizational independence may include personal conflicts of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

**Internal Audit Activity** - A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization’s operations. The internal audit activity 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.

**Objectivity** - An unbiased mental attitude that requires internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.

**Risk** - The uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of consequences and likelihood.