FINANCIAL SERVICES KNOWLEDGE BRIEF

COMPARING SR 13-1 TO IIA STANDARDS

Similarities and differences between the *Standards* and the U.S. Federal Reserve's view on the internal audit function

The Institute of Internal Auditors
Financial Services AUDIT CENTER

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INTRODUCTION

The Institute of Internal Auditors (IIA) and the U.S. Federal Reserve communicate expectations for internal auditing from two perspectives. The IIA's International Professional Practices Framework (IPPF), which includes its *International Standards for the Professional Practice of Internal Auditing*, provides The IIA's promulgated guidance to internal audit professionals.[1] In comparison, the Federal Reserve's *Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing* (SR 13-1) is directed at institutions.[2]

Although their target audiences are different, the guidance from both organizations is largely compatible and consistent. Indeed, the Federal Reserve strongly encourages "internal auditors to adhere to professional standards such as the IIA guidance," as noted in SR 13-1.

This Financial Services Audit Center (FSAC) publication identifies and discusses key areas where SR 13-1 and IIA *Standards* intersect to facilitate implementation of guidance from both the Federal Reserve and The IIA. Internal auditors, boards, and senior management can use this information to improve internal audit effectiveness in their organizations. While key topics are explored, please note that this comparison is not intended to be exhaustive.

SR 13-1 background

SR 13-1, designed to supplement but not supersede the guidance of the Federal Reserve's 2003 Policy Statement,[3] comprises five sections:

Section 1: Enhanced internal audit practices.

Section 2: The internal audit function.

Section 3: Internal audit outsourcing arrangements.

Section 4: Independence guidance for the independent public accountant.

Section 5: Examination guidance.

This FSAC knowledge brief will focus on Sections 1 and 2, where the Federal Reserve describes, in detail, its expectations of the internal audit function. Although Section 3 discusses the outsourcing of internal audit, which is not recommended in general by The IIA, the expectation is that the service provider is in conformance with the IPPF.

[1] The IIA's International Professional Practices Framework (IPPF). https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx.
[2] "Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing (US Federal Reserve SR 13-1). https://www.federalreserve.gov/supervisionreg/srletters/sr1301a1.pdf.
[3] Interagency Policy Statement on the Internal Audit Function and Its Outsourcing (2003 Policy Statement). https://www.federalreserve.gov/boardDocs/SRLetters/2003/SR0305a1.pdf.

Terminology

In aligning the *Standards* and SR 13-1, certain general parameters should be observed. First there are differences in terminology that should be recognized. The *Standards* use the term *internal audit activity*, while SR 13-1 uses the term *internal audit function*. These terms should be considered one and the same. The term *must* is used in the *Standards* to specify an unconditional requirement and *should* where conformance is expected unless, when applying professional judgment, circumstances justify deviation. SR 13-1 uses the word *should* to convey the Federal Reserve's expectations of internal audit.

IIA *Standards*

When mapping the *Standards* to the Federal Reserve's expectations in SR 13-1, it is important to note that there are certain *Standards* with underlying concepts that should be considered constants throughout this comparison and analysis.

- **IIA Standard 1220: Due Professional Care,** states that internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.
- **IIA Standard 2100: Nature of Work,** states that internal audit must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach.
- **IIA Standard 2020: Communication and Approval,** states that the chief audit executive (CAE) 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 CAE must also communicate the impact of resource limitations.
- **IIA Standard 2400: Communicating Results,** states that internal auditors must communicate the results of engagements.

SECTION 1. ENHANCED INTERNAL AUDIT PRACTICES

A. Risk analysis

In this section, SR 13-1 states that "internal audit should analyze the effectiveness of all critical risk management functions both with respect to individual risk dimensions, and an institution's overall risk management function." This aligns with IIA Standard 2120: Risk Management with slight differences. The key action phrase in this section of SR 13-1 is "analyze the effectiveness" of risk management where Standard 2120 requires internal audit to not only "evaluate" the effectiveness, but internal audit must "contribute to the improvement" of risk management. The Federal Reserve guidance does not explicitly place the responsibility of contributing to the improvement of the risk management with internal audit.

SR 13-1 further states in this section that the analysis should focus on the nature and extent of monitoring compliance with established policies and processes, and applicable laws and regulations, within the institution as well as whether monitoring processes are appropriate for the institution's business activities and the associated risks.

These requirements are stated in a more general tone by using phrases such as "policies and processes" and "business activities and the associated risks," which are open to some interpretation of risks. Standard 2120.A1 and Standard 2120.A2 list specific risks associated with an organization's governance, operations, and information systems for analyzing the effectiveness of critical risk management functions, including:

- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.
- Potential for the occurrence of fraud.
- How the organization manages fraud risk.

This list is not finite. In addition, Standard 2120.C1 on consulting engagements allows for an expansion of the list by calling on internal audit to be alert to the existence of other significant risks. One may consider using the list provided in the IPPF as a starting point in this activity.

B. Thematic control issues

This section of SR 13-1 centers around internal audit identifying "thematic macro control issues as part of its risk-assessment processes and determine the overall impact of such issues on the institution's risk profile."

Thematic macro control issues in the Federal Reserve guidance is interpreted as systematic or institutional control issues. IIA Standard 2130: Control provides a list of specific risk areas that comprise an organization's risk profile (similar to the list provided with Standard 2120.A1):

- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.

Here again, Standard 2130.C1 requires internal auditors to "incorporate knowledge of controls gained from consulting engagements into evaluation of the organization's control processes," which opens the possibility for newly identified risks to be added to the risk profile.

This section of SR 13-1 also states that internal audit coverage should reflect the identification of thematic macro control issues across the firm in all auditable areas. This is addressed by IIA Standard 2230: Engagement Resource Allocation in which 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."[4]

SR 13-1 Section 1.B continues with an expectation that "internal audit should identify patterns of thematic macro control issues, determine whether additional audit coverage is required, communicate such control deficiencies to senior management and the audit committee, and ensure management establishes effective remediation mechanisms." These points are all addressed within the Standard 2400 series and their accompanying implementation guides on communicating results, which is one of the previously identified underlying standards.

C. Challenging management and policy

The Federal Reserve sets its expectations in this section of SR 13-1 that internal audit challenge management on policies, procedures, and effective controls, and that internal audit should report deficiencies to senior management and the audit committee with recommended remediation.

IIA Standard 2110: Governance states that internal audit must assess and make appropriate recommendations to improve the organization's governance process. While SR 13-1 makes a general reference to "a particular line of business or activity," Standard 2110 provides a list of specific governance business activities. The Federal Reserve guidance appears to give internal audit more power by stating that internal audit may recommend "restricting business activity in affected lines of business until effective policies, procedures, and controls are designed and implemented." As part of "Implementation Guide 1000: Purpose, Authority, and Responsibility," it is internal audit's responsibility to monitor corrective actions taken by management.

[4] *Appropriate* refers to the mix of knowledge, skills, and other competencies needed to perform the engagement. *Sufficient* refers to the quantity of resources needed to accomplish the engagement with due professional care.

D. Infrastructure

The SR 13-1 states in this section that internal audit should review significant changes to organizational infrastructure and notify management of potential internal control issues. The Federal Reserve also expects internal audit to ensure that existing, effective internal controls are not negatively impacted by those changes.

Although the *Standards* do not specifically mention reviews of infrastructure changes, this section is generally aligned with Standard 2110 on governance and Standard 2130 on control. The *Standards*' requirement to assess the organization's governance processes aligns with the Federal Reserve's comments on reviewing significant changes in infrastructure. According to the *Standards*, internal audit must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. Specifically, Standard 2130.C1 states that internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization's control processes.

E. Risk tolerance

The Federal Reserve expectation in this section is that internal audit has a clear understanding of the risks facing the organization, and is ensuring that the board and senior management are actively involved in setting and monitoring compliance with the institution's risk tolerance limits. The guidance also states that internal audit should evaluate the reasonableness of established limits and perform sufficient testing to ensure that management is operating within these limits and other restrictions.

This section aligns well with the Standard 2120 covering risk management and its accompanying "Implementation Guide 2120: Risk Management," in which the IPPF further illustrates that internal audit will demonstrate its understanding of the organization's risk management processes and look for opportunities for improvement. Through conversations with senior management and the board, the CAE would consider the risk appetite, risk tolerance, and risk culture of the organization. The internal audit activity should alert management to new risks, as well as risks that have not been adequately mitigated, and provide recommendations and action plans for an appropriate risk response.

F. Governance and strategic objectives

In this section, the Federal Reserve sets expectations of internal audit to evaluate governance at all management levels. Internal audit also is expected to evaluate the adequacy and effectiveness of controls to respond to risks within the organization's governance, operations, and information systems in achieving the organization's strategic objectives, and report any concerns to senior management and the board.

This section aligns with Standard 2110 on governance. Standard 2110 and its accompanying "Implementation Guide 2110: Governance" provide detailed recommendations on how internal audit must assess and make appropriate recommendations to improve the organization's governance processes to satisfy SR 13-1 expectations.

SECTION 2. INTERNAL AUDIT FUNCTION

A. Attributes of internal audit

The Federal Reserve intends this section to supplement the existing guidance in the 2003 Policy Statement by strongly encouraging internal auditors to adhere to professional standards, such as The IIA's guidance. Furthermore, this section adds more detail regarding certain aspects of IIA guidance and provides practices intended to increase the safety and soundness of institutions.

Independence

The Federal Reserve states that internal audit "should be positioned so that an institution's board of directors has confidence that the internal audit function can be impartial and not unduly influenced by managers of day-to-day operations." IIA Standard 1100: Independence and Objectivity resonates the requirement for independence. Standard 1100 further states that "threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels."

This section of SR 13-1 also provides guidance on the functional and administrative reporting arrangement for the CAE. IIA Standard 1110: Organizational Independence and its accompanying implementation guidance matches with other key SR 13-1 concepts in this section:

- The CAE must confirm to the board, at least annually, the organizational independence of the internal audit activity.
- A functional reporting line to the board provides the CAE with direct board access for sensitive matters and enables sufficient organizational status.
- The IIA recommends the CAE report administratively to the chief executive officer (CEO), both so that the CAE is clearly a senior position and that internal audit is not positioned within an operation that is subject to audit.
- IIA Standard 2060: Reporting to Senior Management and the Board lists the recommended information to be included in the CAE's periodic reports to the board and senior management.

Professional competence and staffing

This section of SR 13-1 is prescriptive of the skill sets and skill level of internal audit. *Standards* series 1200 on proficiency and professional care are very much on point. The series and their accompanying implementation guides cover the topics of the knowledge, skills, and other competencies internal auditors must possess to perform their individual responsibilities (IIA Standard 1210: Proficiency), the care and skill expected of a prudent and competent internal auditor (IIA Standard 1220: Due Professional Care), and the need to continuously enhance those skills (IIA Standard 1230: Continuing Professional Development). The details within this series match the Federal Reserve expectations on professional competence.

The Federal Reserve also points out in this section that "management feedback surveys and internal or external quality assurance findings are useful tools to identify and assess knowledge gaps." These activities are included in external quality assurance as prescribed by *Standards* series 1300 on Quality Assurance and Improvement Program (QAIP). The QAIP is discussed in more detail later in this knowledge brief.

Objectivity and ethics

In this section, the Federal Reserve quotes directly from IIA Standard 1120: Individual Objectivity for the definition of conflict of interest as "a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult for the individual to fulfill his or her duties impartially." Other commonalities include similar interpretations of objectivity regarding assigning auditors to activities where they were previously responsible within one year. The IIA uses a stronger tone by stating that internal auditors "must refrain" from these activities while the Federal Reserve uses "should not."

Internal audit charter

SR 13-1 states that each institution should have an internal audit charter that describes the purpose, authority, and responsibility of the internal audit function. The Federal Reserve's expectations match up well with IIA Standard 1000: Purpose, Authority, and Responsibility and IIA Standard 1010: Recognizing Mandatory Guidance in the Internal Audit Charter, and with their accompanying implementation guidance.

B. Corporate governance considerations

In this section, the Federal Reserve sets its expectations on senior management, board of directors (specifically audit committee), and CAE responsibilities.

Board of directors and senior management responsibilities

The Federal Reserve points here to its 2003 Policy Statement on board and senior management responsibilities for ensuring an effective system of internal controls. Because the IPPF does not include standards covering responsibilities outside of internal audit activity, there is no parallel guidance in the *Standards*.

Audit committee responsibilities

This section of SR 13-1 covers the audit committee's responsibilities in detail as does *Standards* series 1100 on independence and objectivity. Standard 1110 on organizational independence and IIA Standard 1111: Direct Interaction with the Board align well with the Federal Reserve's guidance on audit committee oversight responsivities, the frequency of meetings, audit committee charter, budget, staffing, audit plan, and overall risk assessment methodology. Additional detail on audit planning is covered by IIA Standard 2010: Planning.

Standard 2060 and its accompanying implementation guidance cover reporting to senior management and the board at a level of detail that aligns well with the Federal Reserve's minimum requirement for the data that the audit committee should receive with respect to internal audit, as shown in the following table.

Information to Be Provided to the Audit Committee	
SR 13-1, Section 2.B: Audit Committee Responsibilities	**IIA Standard 2060: Reporting to Senior Management and the Board**
At a minimum, the audit committee should receive the following data with respect to internal audit:	**The chief audit executive's reporting and communication to senior management and the board must include information about:**
• **Audit results with a focus on areas rated less than satisfactory.** • **Audit plan completion status and compliance with report issuance timeframes.** • **Audit plan changes, including the rationale for significant changes.** • **Audit issue information, including aging, past-due status, root-cause analysis, and thematic trends. Information on higher-risk issues indicating the potential impact, root cause, and remediation status.** • **Results of internal and external quality assurance reviews.** • **Information on significant industry and institution trends in risks and controls.** • **Reporting of significant changes in audit staffing levels.** • **Significant changes in internal audit processes, including a periodic review of key internal audit policies and procedures.** • **Budgeted audit hours versus actual audit hours;** • **Information on major projects.** • **Opinion on the adequacy of risk management processes, including effectiveness of management's self-assessment and remediation of identified issues (at least annually).**	• **The audit charter.** • **Independence of the internal audit activity.** • **The audit plan and progress against the plan.** • **Resource requirements.** • **Results of audit activities.** • **Conformance with the Code of Ethics and the *Standards*, and action plans to address any significant conformance issues.** • **Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organization.**

Role of the chief audit executive

In this section, the Federal Reserve states its expectations of the CAE related to managing the internal audit activity. These responsibilities include:

- Developing and maintaining a quality assurance and improvement program that covers all aspects of internal audit activity. This activity is covered in detail by *Standards* series 1300 on Quality Assurance and Improvement Program.
- Continuously monitoring the effectiveness of the audit function, which is covered in IIA Standard 1311: Internal Assessments.

- Effectively manage and monitor all aspects of audit work on an ongoing basis, including any audit work that is outsourced. IIA Standard 2050: Coordination and Reliance recommends that the CAE "should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts." The *Standards* get into deeper detail on reliance by recommending a consistent process for the basis of reliance, and the assessment of the competency, objectivity, and due professional care of the assurance and consulting service providers. Standard 2050 concludes by holding the CAE accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

C. The adequacy of the internal audit function's processes

In this section of SR 13-1, the Federal Reserve discusses the adequacy of the internal audit function's processes — specifically audit methodology, audit universe, risk assessment, audit plan, and continuous monitoring. The expectation is that internal audit should have an understanding of the institution's strategy and operating processes as well as the potential impact of current market and macroeconomic conditions on the financial institution.

Audit methodology

The section on audit methodology is consistent with Standard 2120 on risk management and Standard 2130 on control — both of which have been previously discussed in this knowledge brief. These standards match up well, especially in the areas of analysis of cross-institutional risk and thematic control issues, and address internal audit's processes and procedures for evaluating the effectiveness of risk management, control, and governance processes.

The area in which SR 13-1 provides more prescriptive detail is in continuous monitoring. The Federal Reserve clearly states its expectation of internal audit to address the role of continuous monitoring in determining and evaluating risk, as well as internal audit's process for incorporating other risk identification techniques that the institution's management utilizes, such as a risk and control self-assessment (RCSA). The *Standards* do not provide that level of detail.

Audit universe

This section matches well with Standard 2010 and its accompanying "Implementation Guide 2010: Planning." The guidance provides detailed recommendations similar to SR 13-1 on developing, organizing, and updating the audit universe of auditable entities.

Internal audit risk assessment

Even though this section of SR 13-1 is quite detailed, the expectations of risk assessments in this section are addressed well by Standard 2010 and its accompanying implementation guidance on planning, which cover areas such as risk-based planning, the understanding of business strategies and key objectives, the associated risks of the strategies and objectives, risk management processes, and the necessity of internal audit to review and adjust the audit plan to changes in any of the aforementioned areas. In addition, Standard 2120 and its accompanying implementation guidance on risk assessment also cover the Federal Reserve's expectations of thematic control issues, risk tolerance, governance, and changing market conditions or laws and regulations.

SR 13-1 adds specific details in the Federal Reserve's expectation that the internal audit risk assessment should also include a specific rationale for the overall auditable entity risk score. The overall disposition of the risk assessment should be summarized with consideration given to key performance or risk indicators and prior audit results. A high-level summary or discussion of the risk assessment results should be provided to the audit committee and include the most significant risks facing the institution as well as how these risks have been addressed in the internal audit plan.

Internal audit plan

This section of SR 13-1 lines up well with Standard 2010 and the accompanying implementation guidance on the key points of the audit plan, including:

- Appropriate audit coverage based on the size and complexity of the business activity.
- Developing a multi-year plan that would be assessed annually.
- Acknowledging risk areas that are not addressed in the audit plan.
- Ensuring internal audit coverage is adequate with the greatest exposure to key risks affecting business activities.
- Ability to allow for change when necessary.

Internal audit continuous monitoring

The Federal Reserve in this section further prescribes the use of formal continuous monitoring practices as part of the function's risk assessment process to support adjustments to the audit plan or universe as they occur. SR 13-1 advises written standards to ensure consistent application of processes throughout the organization. Results should be documented through a combination of metrics, management reporting, periodic audit summaries, and updated risk assessments to substantiate that the process is operating as designed.

As previously covered in the Audit Planning section, the *Standards* do not provide much detail on continuous monitoring. The topic is covered in more detail in The IIA's "Global Technology Audit Guide (GTAG®): Coordinating Continuous Auditing and Monitoring to Provide Continuous Assurance," which is not part of the *Standards*.

D. Internal audit performance and monitoring processes

Performance

In this section of SR 13-1, the Federal Reserve states its expectations of the performance of the internal audit function in the areas of an internal audit policies and procedures manual, audit scope, work papers, audit report, and issues tracking.

The Federal Reserve expects documentation of internal audit policies and procedures to ensure that audit execution is consistent across the audit function. The manual should be updated as needed and made available to all internal audit staff. IIA Standard 2040: Policies and Procedures and its implementation guidance offer details regarding the topics that should be covered in the policies and procedures manual and its dissemination to the internal audit staff. The IPPF also recommends training sessions may be conducted to review the information and requesting that internal auditors sign forms of acknowledgement, indicating they have read and understand the policies and procedures.

In the area of internal audit scope, IIA Standard 2200: Engagement Planning, IIA Standard 2201: Planning Considerations, IIA Standard 2210: Engagement Objectives, IIA Standard 2220: Engagement Scope, and their accompanying implementation guidance cover this area in similar fashion as SR 13-1. Both expect internal auditors to review the planning considerations and the engagement objectives to attain an understanding of the key risks identified during the planning phase.

The SR 13-1 expectations on internal audit workpapers are covered in the IPPF by IIA Standard 2240: Engagement Work Program, IIA Standard 2300: Performing the Engagement, IIA Standard 2310: Identifying Information, IIA Standard 2320: Analysis and Evaluation, IIA Standard 2330: Documenting Information, IIA Standard 2340: Engagement Supervision, and their accompanying implementation guidance. Standard 2330 also requires internal audit to 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. Records retention on audit documentation is not covered in SR 13-1.

On the topic of the audit report, SR 13-1 covers two main areas: the content of the report and the monitoring of issues identified in the report. The first area is covered by *Standards* series 2400 on communicating results, and the second area by IIA Standard 2500: Monitoring Progress.

Where the Federal Reserve sets its expectations on the report issuance process and the report's contents, *Standards* series 2400 places these additional requirements on the report:

- The quality of the report (IIA Standard 2420: Quality of Communications).
- Communication of errors and omissions by the CAE should any exist in the report (IIA Standard 2421: Errors and Omissions).
- Indication that the engagement is in conformance with the *Standards* (IIA Standard 2430: Use of "Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*").
- Disclosure of nonconformance with the *Standards* (IIA Standard 2431: Engagement Disclosure of Nonconformance).

On the subject of monitoring progress, the Federal Reserve's expectation of internal audit is to ensure management considers the level and significance of the risk when assigning resources to address and remediate issues. Management should appropriately document the action plans either within the audit report or separately. The *Standards* take a slightly different approach requiring internal audit to 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.

Retrospective review processes

In this section, SR 13-1 covers the responsibilities of management and internal audit should an adverse event occur. Specifically internal audit should:

- Ensure that management conducts a postmortem and "lessons learned" analysis, and appropriate action is taken to remediate identified issues.
- Evaluate management's analysis of the reasons for the event and whether the adverse event was the result of a control breakdown or failure.

- Identify the measures that should be put in place to prevent a similar event from occurring in the future.
- Conduct its own postmortem and lessons learned analysis outlining the remediation procedures necessary to detect, correct, and/or prevent future internal control breakdowns (including improvements in internal audit processes).

These actions are not covered in the *Standards*.

Quality assurance and improvement program

The Federal Reserve begins its guidance by referencing the *Standards* and stating that a "well-designed, comprehensive quality assurance program should ensure that internal audit activities conform to The IIA's professional standards and the institution's internal audit policies and procedures. The program should include both internal and external quality assessments." The Federal Reserve continues to reiterate The IIA recommendation that an external quality assessment of internal audit be performed by a qualified independent party at least once every five years. The review should address compliance with The IIA's definition of internal auditing, Code of Ethics, and *Standards*, as well as with the internal audit function's charter, policies and procedures, and any applicable legislative and regulatory requirements. The CAE should communicate the results, planned actions, and status of remediation efforts to senior management and the audit committee. This aligns exactly with *Standards* series 1300 on the quality assurance and improvement program.

CLOSING THOUGHTS

The U.S. Federal Reserve System's guidance on internal audit and its outsourcing is often used as a baseline by bank examiners. The Federal Reserve's guidance relates closely to The IIA's *Standards* and other guidance with the exception of some prescriptive areas on methodology, such as continuous monitoring and reaction to an adverse event. This knowledge brief addresses Section 1 and Section 2 of SR 13-1 as they specifically address the internal audit function, while the remaining three sections do not. Financial services auditors who conform to the *Standards* identified in this publication and charted in the appendix, and leverage The IIA's Supplemental Guidance to achieve excellence should be well-prepared to demonstrate their compliance with SR 13-1.

Appendix. Comparison Between SR 13-1 and IIA *Standards*

SR 13-1, Section 1. Enhanced Internal Audit Practices	
SR 13-1 Subsections	**Key Related IIA *Standards* and Guidance**
1.A. Risk Analysis	
The section states that "internal audit should analyze the effectiveness of all critical risk management functions both with respect to individual risk dimensions, and an institution's overall risk management function."	**Standard 2120: Risk Management** **Standard 2120.A1** **Standard 2120.A2** **Standard 2120.C1**
1.B. Thematic Control Issues	
This section centers around internal audit identifying "thematic macro control issues as part of its risk assessment processes and determine the overall impact of such issues on the institution's risk profile."	**Standard 2130: Control** **Standard 2130.C1** **Standard 2230: Engagement Resource Allocation** **Standard 2400 series**
1.C. Challenging Management and Policy	
This section sets expectations that internal audit challenge management on policies, procedures, and effective controls, and that internal audit should report deficiencies to senior management and the audit committee with recommended remediation.	**Standard 2110: Governance** **Implementation Guide 1000: Purpose, Authority, and Responsibility**
1.D. Infrastructure	
This section states that internal audit should review significant changes to organizational infrastructure and notify management of potential internal control issues.	**Standard 2110: Governance** **Standard 2130: Control** **Standard 2130.C1**
1.E. Risk Tolerance	
This section sets expectations that internal audit has a clear understanding of the risks facing the organization, and is ensuring that the board and senior management are actively involved in setting and monitoring compliance with the institution's risk tolerance limits.	**Standard 2120: Risk Management** **Implementation Guide 2120: Risk Management**
1.F. Governance and Strategic Objectives	
This section sets expectations of internal audit to evaluate governance, evaluate the adequacy and effectiveness of controls, and report any concerns to senior management and the board.	**Standard 2110: Governance** **Implementation Guide 2120: Risk Management**

Sources: "Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing (US Federal Reserve SR 13-1), https://www.federalreserve.gov/supervisionreg/srletters/sr1301a1.pdf. *International Standards for the Professional Practice of Internal Auditing* (The Institute of Internal Auditors, 2017 edition), https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx.

Comparison Between SR 13-1 and IIA *Standards* (continued)

SR 13-1, SECTION 2: INTERNAL AUDIT FUNCTION	
SR 13-1 Subsections	**Key Related IIA Standards and Guidance**
2.A. Attributes of Internal Audit	
Independence	Standard 1100: Independence and Objectivity Standard 1110: Organizational Independence Implementation Guide 1110: Organizational Independence Standard 2060: Reporting to Senior Management and the Board
Professional Competence and Staffing	Standard 1210: Proficiency Standard 1220: Due Professional Care Standard 1230: Continuing Professional Development Standard 1300 series Standard 2100 series
Objectivity and Ethics	Standard 1120: Individual Objectivity
Internal Audit Charter	Standard 1010: Recognizing Mandatory Guidance in the Internal Audit Charter
2.B. Corporate Governance Considerations	
Board of directors and senior management responsibilities	Because the IPPF does not include standards covering responsibilities outside of internal audit activity, there is no parallel guidance.
Audit Committee Responsibilities	Standard 1100 series Standard 1110: Organizational Independence Standard 1111: Direct Interaction with the Board Standard 2010: Planning Standard 2060: Reporting to Senior Management and the Board Implementation Guide 2060: Reporting to Senior Management and the Board
Role of the Chief Audit Executive	Standard 1300 series Standard 1311: Internal Assessments Standard 2050: Coordination and Reliance
2.C. The Adequacy of the Internal Audit Function's Processes	
Audit Methodology	Standard 2120: Risk Management Standard 2130: Control
Audit Universe	Standard 2010: Planning Implementation Guide 2010: Planning
Internal Audit Risk Assessment	Standard 2010: Planning Implementation Guide 2010: Planning Standard 2120: Risk Management Implementation Guide 2120: Risk Management

Internal Audit Plan	**Standard 2010: Planning** **Implementation Guide 2010: Planning**
Internal Audit Continuous Monitoring	**While the *Standards* do not provide much detail on continuous monitoring, the topic is covered in more detail in The IIA's "Global Technology Audit Guide (GTAG®): Coordinating Continuous Auditing and Monitoring to Provide Continuous Assurance."**
2.D. Internal Audit Performance and Monitoring Processes	
Performance	
Internal Audit Scope	**Standard 2040: Policies and Procedures** **Standard 2200: Engagement Planning** **Standard 2201: Planning Considerations** **Standard 2210: Engagement Objectives** **Standard 2220: Engagement Scope** **Also see accompanying implementation guidance.**
Internal Audit Workpapers	**Standard 2240: Engagement Work Program** **Standard 2300: Performing the Engagement** **Standard 2310: Identifying Information** **Standard 2320: Analysis and Evaluation** **Standard 2330: Documenting Information** **Standard 2340: Engagement Supervision** **Also see accompanying implementation guidance.**
Audit Report	**Standard 2400 series** **Standard 2420: Quality of Communications** **Standard 2421: Errors and Omissions** **Standard 2430: Use of "Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*"** **Standard 2431: Engagement Disclosure of Nonconformance** **Standard 2500: Monitoring Progress**
Retrospective Review Processes	**These actions are not covered in the *Standards*.**
Quality Assurance and Improvement Program	**Standard 1300 series**

Sources: "Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing (US Federal Reserve SR 13-1), https://www.federalreserve.gov/supervisionreg/srletters/sr1301a1.pdf. *International Standards for the Professional Practice of Internal Auditing* (The Institute of Internal Auditors, 2017 edition), https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx.

Trust Your Quality to the Experts

Leverage an External Quality Assessment in 2019

Build confidence with your stakeholders through a solid Quality Assurance and Improvement Program (QAIP). Look to IIA Quality Services' expert practitioners to provide:

- Insightful external quality assessment services.
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