

RED & YELLOW BOOK AUDITING STANDARDS

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As unanimously approved by the Audit Committee on November 12, 2024, the City Auditor's Office recommends adopting the Institute of Internal Auditors – Global Professional Practices Framework, referred to as the “Red Book,” in addition to the GAGAS “Yellow Book” Standard.



RED BOOK ADOPTION ADVANTAGES

1. Enhanced Scope and Perspective:

•**Red Book Focus:** Provides a broader framework applicable across all types of organizations, emphasizing the role of internal audit in improving an organization's operations, risk management, control, and governance processes. Applying it brings a more holistic and strategic perspective to the audit function.

2. Strengthened Internal Audit Function:

•**Red Book Emphasis on Internal Audit Activity Management:** The Red Book provides comprehensive guidance on managing the internal audit activity, including its purpose, authority, and responsibility; independence and objectivity; proficiency and due professional care; and quality assurance and improvement program. This helps the local city auditor build a robust and effective internal audit function.

3. Improved Governance and Ethics:

•**Red Book's Principles-Based Approach:** The Red Book's principles for the professional practice of internal auditing (integrity, objectivity, confidentiality, and competency) can reinforce the ethical foundation of the audit work.



4. Enhanced Risk Management and Control Focus:

- Red Book's Risk-Based Approach:** The Red Book explicitly requires a risk-based approach to developing audit plans, ensuring that audit efforts are directed towards the areas of highest risk to the city.

5. Value-Added and Improvement Focus:

- Red Book's Emphasis on Adding Value:** A core principle of the Red Book is that internal audit should add value to the organization. This encourages the auditor to go beyond compliance and identify opportunities for improvement in efficiency, effectiveness, and economy.
- government programs and operations, aligning with the Red Book's value-added focus.

6. Broader Stakeholder Confidence:

- Applying both sets of standards can demonstrate a commitment to both government-specific accountability and broader professional best practices in internal auditing, potentially increasing the confidence of various stakeholders, including city management, elected officials, and the public.

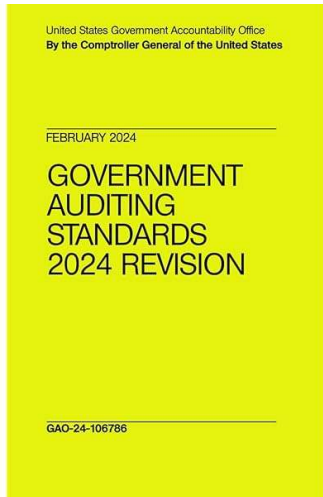


7. Professional Development and Best Practices:

- Exposure to both frameworks can broaden the knowledge and skills of the local city auditor and their staff, keeping them abreast of leading practices in both government auditing and the internal audit profession as a whole.
- Alignment of the City Auditor's Office team's professional development in obtaining the Certified Internal Auditor (CIA) designation
- Compliant with HB No. 3666 initiative to adopt the Red Book at the state agency level
- Less stringent than the Yellow Book

Source: Institute of Internal Auditors





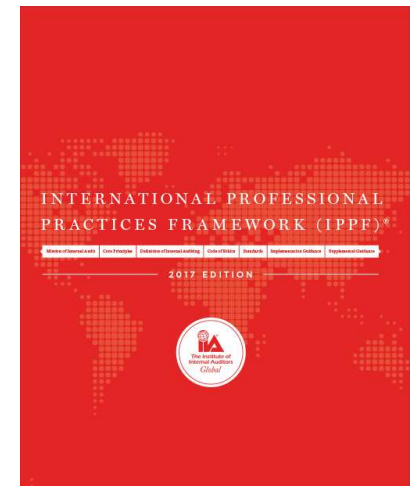
The **YELLOW BOOK** – GAGAS: Generally Accepted Government Auditing Standards

By the GAO: Government Accountability Office



The **RED BOOK** – IPPF: Global Professional Practices Framework

By the IIA: Institute of Internal Auditors



KEY DIFFERENCES

	Global Internal Audit Standards (Red Book)	Government Auditing Standards (Yellow Book)
Developed by	Members of The Institute of Internal Auditors (IIA) across the globe	The United States Government Accountability Office (GAO)
Guidance Perspective	Various countries collectively agree on best practices that can be applied for multiple industry projects	Independent legislative government with a focus on federally funded programs
Designed for	Internal audits with a focus on responsibilities, processes, and controls within a private, public, and/or non-profit organization	Public sector audits with a focus on transparency of responsibilities and accountability of government entities and programs
Recognized Services	Assurance services, consulting services, financial services, risk management evaluations, control assessments, governance reviews	Financial audits, attestation audits, performance audits
Consulting Services	Encourages flexible consulting services allowing collaboration with the organization's management with an independent approach	Solely recognizes GAO's routinely advising services and do not typically result in a formal work product
Prior Audit Reports Recognition	Requires auditors to follow-up on prior audit reports and discover the disposition of implementation of observations/findings	Asks auditors to <i>consider</i> following-up with prior observations, but it is not mandatory
Primary Objective	Adding value and enhancing processes to meet the organization's objectives	Accountability and transparency in Quality Management

AUDIT APPROACH

Our approach is to conduct audits in alignment with the IPPF issued by the Institute of Internal Auditors. Those standards require planning and performing the audit to obtain satisfactory and appropriate evidence to provide a reasonable basis for observations and conclusions within a detailed audit plan based on the audit objectives.

The City Auditor's Office will rely on evidence obtained to provide a reasonable basis for observations and conclusions based on audit objectives.



International
Professional Practices
Framework®
(IPPF)

OTHER AUDIT DEPARTMENTS THAT FOLLOW THE RED BOOK AND THE YELLOW BOOK

