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Chapter 21 – Internal, Operational, and Governmental Auditing
Chapter Overview

Internal, Operational, and Governmental Auditing

Internal Auditing
- Internal Auditing Defined
- Evolution of Internal Auditing
- Practice Standards
- Relationship with Internal Auditors

Operational Auditing
- Operational Auditing Defined
- Phases of an Operational Audit
- Standards for Independent Public Accountants

Governmental Auditing
- Types of Government Audits
- Generally Accepted Government Auditing Standards (GAGAS)
- Reporting on Compliance with Laws and Regulations
- Reporting on Internal Control

The Single Audit Act
- Objectives of the Act
- Applicability and Administration
- Auditors’ Responsibilities under the Act
Internal Auditing Defined

• Internal

• Independent and objective

• Systematic, disciplined approach

• Helps and organization accomplish its objectives
Internal Auditing

• Evolution of Internal Auditing

• IIA Code of Ethics

• IIA Attribute and Performance Standards
  – Attribute Standards
  – Performance Standards
  – Implementation Standards
# Relationship with External Auditors

<table>
<thead>
<tr>
<th></th>
<th><strong>INTERNAL AUDITORS</strong></th>
<th><strong>EXTERNAL AUDITORS</strong></th>
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</thead>
<tbody>
<tr>
<td>Employer</td>
<td>Companies and governmental units</td>
<td>CPA firms</td>
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<tr>
<td>National organization</td>
<td>Institute of Internal Auditors (IIA)</td>
<td>American Institute of Certified Public Accountants (AICPA)</td>
</tr>
<tr>
<td>Certifying designation</td>
<td>Certified Internal Auditor (CIA)</td>
<td>Certified Public Accountant (CPA)</td>
</tr>
<tr>
<td>License to practice</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Primary responsibility</td>
<td>To board of directors</td>
<td>To third parties</td>
</tr>
<tr>
<td>Scope of audits</td>
<td>All activities of an organization</td>
<td>Primarily financial statements</td>
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Operational Auditing Defined

- Systematic process
- Evaluating an organization’s operations
- Effectiveness, efficiency, and economy of operations
- Reporting to appropriate persons
- Recommendations for improvement
Phases of an Operational Audit

- Select Auditee
- Plan Audit
- Perform Audit
- Report Findings
- Perform Followup
Financial Statements v. Operational Audits

**FINANCIAL STATEMENT AUDIT**
- Accept client
- Plan audit
- Perform audit
- Report findings to stockholders

**OPERATIONAL AUDIT**
- Select auditee
- Plan audit
- Perform audit
- Report findings to management
- Perform followup
Types of Government Audits

- Financial Audits
- Attestation Engagements
- Performance Audits
Generally Accepted Government Auditing Standards (GAGAS)

- General Standards
  - Independence
  - Professional judgment
  - Competence
  - Quality Control and Assurance
Generally Accepted Government Auditing Standards (GAGAS)

• Fieldwork Standards for Financial Audits
  – Auditor communication
  – Considering the results of previous audit and attestation engagements
  – Detecting material misstatements resulting from violations of contract provisions or grant agreements, or from abuse
  – Developing elements of a finding
  – Audit documentation
Generally Accepted Government Auditing Standards (GAGAS)

- Reporting Standards for Financial Audits
  - Reporting auditors’ compliance with GAGAS
  - Reporting on internal control and on compliance with laws, regulations, and provisions of contracts or grant agreements
  - Reporting deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grand agreements, and abuse
Generally Accepted Government Auditing Standards (GAGAS)

- Reporting Standards for Financial Audits
  - Reporting views of responsible officials
  - Reporting privileged and confidential information
  - Report issuance and distribution
Generally Accepted Government Auditing Standards (GAGAS)

• Reporting on Compliance with Laws and Regulations

• Reporting on Internal Control
The Single Audit Act

- Objectives of the Act
  - Improve financial management
  - Establish uniform requirements for audits
  - Promote efficient and effective use of audit resources
  - Ensure reliance and usage of audit work completed
The Single Audit Act

• Applicability and Administration
  – Federal Financial Assistance
  – Major Programs
  – Nonmajor Programs
  – Cognizant Agency
Scope of an Audit Under the Single Audit Act

• General
  – Financial Statements
  – Internal Controls
  – Compliance
  – Audit Followup

• Reporting Requirements
  – Opinion on Financial Statements
  – Report on Internal Control
  – Report on Compliance
  – Schedule of Findings and Questioned Costs