

SIAAB Guidance #09

Internal Assessments in State of Illinois Internal Audit

Adopted December 10, 2019

**** Note: The terms “Chief Executive Officer” or “Agency Head” as utilized in this document are interchangeable and shall refer to the individual who has been designated by the Governor as the head of an agency under the Governor or the Constitutional Officer, in the case of those entities which do not fall under the direct jurisdiction of the Governor. The term “Agency” as utilized in this document, refers to an agency under the Governor or the Constitutional Office, in the case of those entities which do not fall under the direct jurisdiction of the Governor. Illinois Administrative Procedures Act (5 ILCS 100 Section 1-25) states, “‘Agency head’ means an individual or group of individuals in whom the ultimate legal authority of an agency is vested by any provision of law.”*

According to the Institute of Internal Auditors (IIA) Standards Glossary, Chief Audit Executive “describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The Chief Audit Executive (or Chief Internal Auditor) or others reporting to the Chief Audit Executive (or Chief Internal Auditor) will have the appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the Chief Audit Executive may vary across organizations.” In Illinois, the Fiscal Control and Internal Auditing Act (30 ILCS 10) refers to the position of Chief Audit Executive as Chief Internal Auditor. The terms Chief Audit Executive and Chief Internal Auditor are used interchangeably.

Key Statutory References:

Fiscal Control and Internal Auditing Act (30 ILCS 10) –

- *Mandatory Standards - The State Internal Audit Advisory Board (SIAAB) shall be responsible for promulgating a uniform set of professional standards and a code of ethics (based on the standards and ethics of the Institute of Internal Auditors, the General Accounting Office, and other professional standards as applicable) to which all State internal auditors must adhere. (30 ILCS 10/2005(f)(1)*
- *Internal Audit Annual Report - By September 30 of each year the chief internal auditor shall submit to the chief executive officer a written report detailing how the audit plan for that year was carried out, the significant findings, and the extent to which recommended changes were implemented. (30 ILCS 10/2003(a)(1)*

Key Related Auditing Standards:

***Auditing Standard (AS) 1300** (Quality Assurance and Improvement Program) - The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.*

***AS 1310** (Requirements of the Quality Assurance and Improvement Program) - The quality assurance and improvement program must include both internal and external assessments.*

AS 1311 (Internal Assessments) – *Internal assessments must include:*

- *Ongoing monitoring of the performance of the internal audit activity.*
- *Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.*

AS 1320 (Reporting on the Quality Assurance and Improvement Program) - *The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:*

- *The scope and frequency of both the internal and external assessments.*
- *The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.*
- *Conclusions of assessors.*
- *Corrective action plans.*

Key Implementation Guides (IG):

- *IG 1311 (Internal Assessments)*
- *IG 1320 (Reporting on the Quality Assurance and Improvement Program)*

SIAAB Interpretation

The State Internal Audit Advisory Board (SIAAB), under its authority granted by the Fiscal Control and Internal Auditing Act (30 ILCS 10/2005(f)(1)) to promulgate a uniform set of professional standards to which all State internal auditors must adhere, has adopted the Institute of Internal Auditors (IIA) *International Standards for the Professional Practices of Internal Auditing (Standards)*. According to auditing standard AS 1300, the chief internal auditor must maintain a quality assurance improvement program (QAIP), with AS 1310 further asserting the QAIP must include both internal and external assessments. AS 1311 states that internal assessments must include both ongoing monitoring and periodic self-assessments. Further, AS 1320 asserts that the chief internal auditor must communicate the results to senior management and the board, if applicable. According to the IIA Standards Glossary, the term must specifies an unconditional requirement.

Ongoing Monitoring

Ongoing monitoring is achieved primarily through continuous activities such as audit engagement planning and supervision; standardized work practices, workpaper procedures and signoffs; report reviews, as well as identification of any weaknesses or areas in need of improvement and action plans to address them. Ongoing monitoring helps the chief internal auditor determine whether internal audit processes are delivering quality on an engagement-by-engagement basis. Ideally, ongoing monitoring occurs routinely throughout the year. Audit and engagement level checklists are a common tool to provide assurance on conformance with Standards, practices and procedures.

Periodic Self-Assessments

Periodic self-assessments have a different focus than ongoing monitoring. Ongoing monitoring is generally focused at the engagement level, whereas periodic self-assessments provide a more holistic, comprehensive review of the Standards and the internal audit activity.

Periodic self-assessments are generally conducted by senior members of the internal audit activity, but may also be conducted by internal audit staff and reviewed by the chief internal auditor. The purpose is to validate conformance with Internal Audit's Charter, the Standards and Code of Ethics, by evaluating the quality and supervision of work performed, the adequacy and appropriateness of internal audit policies and procedures, the ways in which the internal audit activity adds value, the achievement of key performance indicators, and the degree to which expectations are met.

SIAAB Recommendations

SIAAB recommends State of Illinois internal audit activities conduct ongoing monitoring at the engagement level, and demonstrate conformance through documentary evidence such as checklists, surveys, or other various key performance indicators.

There are various methods of conforming to the periodic self-assessment requirement of AS 1311. One possible option includes assessing a subset of the Standards and the Code of Ethics annually, except in years where the external quality assessment is completed, so that all Standards are assessed at least once between five-year external quality assessments. Another option is to conduct a complete self-assessment of all Standards and the Code of Ethics approximately midway between mandatory five-year external quality assessments. Additional steps to support the periodic self-assessment may include selecting a sample of engagements from a particular timeframe and assessing compliance with internal audit policies and conformance with the Standards, review of internal audit key performance indicators and benchmarking of best practices, and conducting customer surveys. SIAAB has prepared the attached optional periodic self-assessment checklist to assist in conforming with AS 1311. The checklist is less extensive than the QAR Matrix SIAAB requires for the five-year QAR (peer) reviews, yet covers every attribute and performance standard.

Finally, an option for demonstrating conformance with AS 1320 is reporting on the QAIP annually in conjunction with the Internal Audit Annual Report (30 ILCS 10/2003(a)(1)).

Relevant Definitions from the IIA Standards Glossary

Board - The highest level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the Standards refers to a group or person charged with governance of the organization. Furthermore, "board" in the Standards may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

Chief Internal Auditor / Chief Audit Executive (CAE) – Describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the chief audit executive may vary across organizations.

Code of Ethics - The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

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.

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 governance, risk management and control processes.

Must - The Standards use the word "must" to specify an unconditional requirement.

Standard - A professional pronouncement promulgated by the International Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

Periodic Internal Self-Assessment Checklist

Self-Assessment Procedures	Conclusion			Initials Date	Comments
<u>Attribute Standard (AS) 1000 - Purpose, Authority, and Responsibility</u>					
Ensure the Internal Audit Charter: <ol style="list-style-type: none"> 1. Has been approved by senior management and the board, if applicable. 2. Includes reporting lines of internal audit. 3. Includes a statement of unrestricted access to all records, personnel, and physical properties. 4. Defines the nature of assurance services. (AS 1000.A1) 5. Defines the nature of consulting services. (AS 1000.C1) 6. Recognizes the mandatory nature of the Definition of Internal Auditing, the Core Principles, the Code of Ethics, and the Standards and has been discussed with senior management and the board, if applicable. (AS 1010) 	GC	PC	DNC		
<u>AS 1100 - Independence and Objectivity</u>					
Ensure internal audit is free from impairment by assessing whether: <ol style="list-style-type: none"> 1. The chief internal auditor reports directly to senior management, and the organizational independence of internal audit is confirmed at least annually. (AS 1110) 2. Internal audit is free from inference in determining scope of work and communicating results. (AS 1110.A1) 3. The chief internal auditor interacts directly with senior management and the board, if applicable. (AS 1111) 4. Internal auditors have an impartial, unbiased attitude through internal audit policies and impairment and disclosure-related documentation. (AS 1100) 5. Impairments have been disclosed to appropriate parties. (AS 1130) 6. Internal auditors refrain from assessing functions over which they previously had responsibility in the year preceding the engagement. (AS 1130.A1) 7. The chief internal auditor does not have operational duties outside of internal audit. (AS 1130.A2) (30 ILCS 10/2002(b)) 	GC	PC	DNC		
<u>AS 1200 - Proficiency and Due Care</u>					
Ensure internal auditors apply the care and skill expected of a reasonably prudent and competent internal auditor by assessing whether: <ol style="list-style-type: none"> 1. Internal auditors have the specified level of education and experience, and collectively possesses adequate skills. (AS 1210) 2. Competent assistance was sought in situations where internal audit lacked competencies for engagements. (AS 1210.A1) 3. Internal auditors have sufficient knowledge to evaluate the risk of fraud. (AS 1210.A2) 4. Internal auditors have sufficient knowledge of key information technology risks and controls. (AS 1210.A3) 5. Assess whether auditors apply the care and skill expected of a reasonably prudent and competent internal auditor (AS 1220) 6. The extent of work needed is based on objectives, complexity, materiality, probability of errors/fraud/noncompliance, and costs in relation to benefits. (AS 1220.A1) 7. The use of technology-based audit and data analysis techniques is considered (AS 1220.A2) 	GC	PC	DNC		

Self-Assessment Procedures	Conclusion			Initials Date	Comments
8. Consideration was given to significant risks that may affect the objectives, operations, or resources. (AS 1220.A3) 9. Auditors adhere to continuing professional education requirements (SIAAB Bylaw 2.5). (AS 1230)					
AS 1300 - Quality Assurance and Improvement Program (QAIP)					
Determine whether the chief internal auditor maintains a QAIP that covers all aspects of internal audit by assessing whether: <ol style="list-style-type: none"> The QAIP includes both internal and external assessment. (AS 1310) There is ongoing monitoring and periodic internal assessments of internal audit. (AS 1311) External assessment was completed and accepted by SIAAB in the prior five years, and if so corrective action was taken for issues identified (SIAAB Bylaws, Article III). (AS 1312) The results of periodic internal self-assessments and external assessments were formally communicated at least annually to the senior management and the board, if applicable. (AS 1320) Internal audit reports contain <i>"Conforms with the International Standards for the Professional Practice of Internal Auditing"</i> only when results of the QAIP supported the use of the statement. (AS 1321) When use of the statement <i>"Conforms with the International Standards for the Professional Practice of Internal Auditing"</i> is <u>not</u> supported by the results of the QAIP, or has not been supported by an external assessment in the past five years, verify internal audit reports included an explanatory paragraph describing the noncompliance and the corrective action to be taken until a subsequent review supports the use of the statement. (AS 1322) 	GC	PC	DNC		
Performance Standard (PS) 2000 - Managing Internal Audit					
Determine if the internal audit function is effectively managed to ensure it adds value by assessing whether: <ol style="list-style-type: none"> A two-year audit plan (30 ILCS 10/2003(a)) has been established to determine internal audit priorities, consistent with agency goals. (PS 2010) The plan is based on a documented risk assessment, undertaken at least annually. (PS 2010.A1) The plan considers the input and expectations of senior management and the board, if applicable. (PS 2010.A1) The plan, including significant interim changes, was approved by the chief executive officer prior to the start of the fiscal year (30 ILCS 10/2003(a)(1)). (PS 2020) The impact of resource limitations were communicated. (PS 2020) Resources were sufficient to achieve the approved plan. (PS 2030) Written policies exist for: conducting an audit, preparing workpapers, developing findings, preparing reports, and communicating results. (PS 2040) Internal audit shares information and coordinates activities with other internal and external providers to ensure proper coverage and minimize duplication of efforts. (PS 2050) The chief internal auditor reported periodically to senior management and the board, if applicable, on internal audit's purpose, authority, responsibility, and performance including 	GC	PC	DNC		

Self-Assessment Procedures	Conclusion			Initials Date	Comments
<p>significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board, if applicable. (PS 2060)</p> <p>10. If an external service provider serves as internal audit, determine if the provider make the agency aware that the agency has the responsibility for maintaining an effective internal audit. (30 ILCS 10/2001) (PS 2070) <i>(Note: As FCIAA (30 ILCS 10/2002(b) requires a full-time internal audit activity for designated State agencies, this should not be applicable. If it is applicable, the function does not comply with FCIAA.)</i></p>					
PS 2100 - Nature of Work – Governance, Risk Management and Control					
<p>Determining whether internal audit contributed to the improvement of governance, risk management, and control processes by:</p> <ol style="list-style-type: none"> 1. Assessing and making recommendations, as needed, pertaining to promoting ethics and values, ensuring effective performance management and accountability, and communicating risk and control information. (PS 2110) 2. Evaluating the design, implementation, and effectiveness of the agency's ethics-related objectives, programs, and activities. (PS 2110.A1) 3. Assessing whether the information technology governance of the agency supports the agency's strategies and goals. (PS 2110.A2) 4. Evaluating the effectiveness of, and contributes to the improvement of, risk management. (PS 2120) 5. Assessing the risk exposure and the effectiveness of controls relating to the agency's governance, operation, and information systems (PS 2120.A1) 6. Assessing he processes in place to evaluate the potential for the occurrence of fraud and how the agency manages fraud risks. (PS 2120.A2) 7. Determining whether internal audit engagements assist the agency in maintaining and evaluating control effectiveness and efficiency by promoting continuous improvement. (PS 2130) 8. Ensuring engagements assist the agency in responding to risks to reliability and integrity of financial and operational information; effectiveness and efficiency of operations and programs; safeguarding assets; and compliance with laws, regulations, policies, procedures, and contracts. (PS 2130.A1) 	GC	PC	DNC		
PS 2200 - Engagement Planning					
<p>Assess whether adequate documented plans were developed for each engagement that included:</p> <ol style="list-style-type: none"> 1. Objectives, significant risks, effectiveness of risk control, and opportunities for making improvements. (PS 2201) (PS 2010) (PS 2020) 2. A preliminary assessment of the risks relevant to the activity under review. (PS 2210.A1) 3. Consideration of the probability of significant errors, fraud, noncompliance, and other exposures. (PS 2210.A2) 4. Use of adequate criteria as a basis for evaluating controls. (PS 2210.A3) 5. Consideration of the relevant systems, records, personnel, and physical properties, including those under third party control. (PS 2220.A1) 	GC	PC	DNC		

Self-Assessment Procedures	Conclusion			Initials Date	Comments
6. Determining if significant consulting opportunities occurred during an assurance engagement. If so, a written understanding was obtained and the results communicated in accordance with consulting standards. (PS 2220.A2) 7. Assessing whether appropriate and sufficient resources have been allocated to achieve the engagement objectives based upon the nature and complexity of the engagement, time constraints, and available resources. (PS 2230) 8. The development and documentation of work programs that achieve the engagement objectives. (PS 2240) 9. Procedures in the work programs for identifying, analyzing, evaluating, and documenting information during the engagement. (PS 2240.A1)					
PS 2300 - Performing the Engagement					
Ensure auditors identified, analyzed, evaluated, and documented sufficient information to achieve the engagement objectives by assessing whether: <ol style="list-style-type: none"> Documentation is referenced to audit programs and appears to be sufficient, reliable, relevant and useful to achieve the audit objectives. (PS 2310) Appropriate analysis and evaluations were used and documented to support the engagement results and conclusions. (PS 2320) Workpapers document relevant information to support the conclusions and engagement results. (PS 2330) Engagement workpapers have been released to external parties and whether the approval of senior management and/or legal counsel was obtained prior to releasing the records (PS 2330.A1) Policies have been developed governing the custody and retention of assurance and consulting workpapers consistent with agency guidelines and the State Records Act (5 ILCS 160). (AS 2330.A2) Engagements are properly supervised to ensure objectives are achieved, quality is assured, and staff is developed. (PS 2340) 	GC	PC	DNC		
PS 2400 - Communicating the Results					
Ensure engagement results were properly communicated by assessing whether: <ol style="list-style-type: none"> Reports include the engagement's objectives and scope, as well as applicable conclusions, recommendations and action plans. (PS 2410) Final communication of engagement results contained, where appropriate, internal auditor's overall opinion and/or conclusions. (PS 2410.A1) Communication acknowledges satisfactory performance, where appropriate (this is encouraged but not required). (PS 2410.A2) Communications to parties outside the agency contain limitations on distribution and use of results. (PS 2410.A3) Communication appears to be accurate, objective, clear, concise, constructive, complete, and timely. (PS 2420) Corrected information was distributed to all parties in instances where a final communication contained a significant error or omission.(PS 2421) 	GC	PC	DNC		

Self-Assessment Procedures	Conclusion			Initials Date	Comments
<p>7. "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing", is used only when supported by the results of the QAIP. (PS 2430)</p> <p>8. Noncompliance with the Standards is disclosed, including the rule with which conformance was not achieved, the reasons for nonconformance, and the impact of nonconformance. (PS 2431)</p> <p>9. The communication included appropriate parties. (PS 2440)</p> <p>10. Communication was made to the parties who can ensure the results are given due consideration. (PS 2440.A1)</p> <p>11. Release to external parties, when not mandated by legal or other requirements, was based on an assessment of potential risk, consultation with management/counsel as appropriate, and controlled by restricted dissemination. (PS 2442.A2)</p> <p>12. Overall opinions, when issued, include: the scope, time period, scope limitations, consideration of all related projects including the reliance on other assurance providers, the risk or control framework or other criteria used as a basis for the overall opinion, and the criteria used as a basis for unfavorable opinions. (PS 2450)</p>					
<u>PS 2500 – Monitoring Progress</u>					
<p>Determine whether:</p> <p>1. An internal audit annual report was submitted by September 30th to the chief executive officer and included details on how the audit plan for the prior fiscal year was carried out, the significant findings, and the extent to which recommended changes were implemented. (30 ILCS 10/2003(a)(1))</p> <p>2. The system used to follow-up and monitor to ensure management actions have been effectively implemented or that senior management has accepted the risk of not taking action. (PS 2500.A1)</p>	GC	PC	DNC		
<u>PS 2600 – Communicating Acceptance of Risk</u>					
<p>Determine whether the chief internal auditor has discussed levels of risk that are unacceptable with senior management and if not resolved, with the board, if applicable, for resolution.</p>	GC	PC	DNC		

Standard	Internal Assessment Procedures	Conclusion			Date Initials	Comments
Consulting Services						
Determine whether internal audit conducts <i>formal</i> consulting engagements. If so, complete this section.		Yes	No			
AS 1130.C1	Internal auditors may provide consulting services to operations for which they had previous responsibilities.	GC		NA		
AS 1130.C2	Potential impairments to independence or objectivity related to consulting services were disclosed prior to accepting engagement(s).	GC	PC	DNC		
AS 1210.C1	Consulting engagements are declined or competent assistance is sought when the skills, knowledge, or necessary competencies are lacking.	GC	PC	DNC		
AS 1220.C1	Procedures are based on complexity, materiality, significance and the costs are assessed in relation to potential benefits.	GC	PC	DNC		
PS 2010.C1	Ensure accepted consulting engagements were included in the plan and have a potential to improve management of risks, add value, and improve operations.	GC	PC	DNC		
PS 2120.C1	When performing consulting engagements, determine whether the risks and controls consistent with the engagement objectives are addressed.	GC	PC	DNC		
PS 2130.C1	Consulting engagements assisted the agency in maintaining evaluate control effectiveness and efficiency by promoting continuous improvement.	GC	PC	DNC		
PS 2201.C1	Determine whether an understanding was established with clients about the objectives, scope, respective responsibilities and other expectations.	GC	PC	DNC		
PS 2210.C1	Determine whether objectives address governance, risks management, and control processes.	GC	PC	DNC		
PS 2210.C2	Ensure objectives are consistent with the agency's values, strategies, and objectives.	GC	PC	DNC		
PS 2220.C1	Ensure the scope sufficiently addresses the agreed-upon objectives, and if internal auditors developed reservations about the scope during the engagement, the reservations discussed with the client to determine whether to continue with the engagement.	GC	PC	DNC		
PS 2220.C2	Determine whether internal auditors addressed controls consistent with the objectives and were alert to significant control issues.	GC	PC	DNC		
PS 2240.C1	Work programs may vary in form and content depending on the nature of the engagement.	GC	PC	DNC		
PS 2330.C1	Ensure policies have been developed governing the custody and retention of consulting workpapers, consistent with the State Records Act (5 ILCS 160).	GC	PC	DNC		
PS 2410.C1	Ensure communication appears accurate, objective, clear, concise, constructive, complete, and timely.	GC	PC	DNC		
PS 2440.C1	Determine whether the results of the engagement were communicated to the appropriate parties.	GC	PC	DNC		
PS 2440.C2	If governance, risk management, and control issues were identified during consulting engagements, determine whether they were communicated to senior management and the board, if applicable.	GC	PC	DNC		
PS 2500.C1	Determine whether internal audit monitors the disposition of results for consulting engagements.	GC	PC	DNC		