

AUDIT ISSUES SUBCOMMITTEE  
RECOMMENDATIONS ON  
INTERNAL AUDITING IN STATE GOVERNMENT  
March 6, 1981

INTRODUCTION

In response to a request from the Governor's Office, the Volunteers in Public Management performed a review of the internal audit process in the State of Illinois. Volunteers in Public Management is a project team which consists of volunteers from various private sector enterprises. Coordinated through the Government Affairs section of the United Way of Metropolitan Chicago, they provide volunteer assistance for the State. The volunteers conducted on-site interviews with audit managers in selected agencies and reviewed work plans, work papers and reports. They also reviewed external audit reports, met with members of the Auditor General's staff, Legislative Audit Commission staff and attended Legislative Audit Commission hearings. The volunteers issued a pre-implementation and a final report in which they addressed their results on a state-wide basis. They also conducted seminars for agency directors, audit managers and internal audit staff.

As an outgrowth of the project, the Audit Issues Subcommittee has been formed. This report is a result of their study of the Volunteers in Public Management report and development of specific recommendations. It is being issued to the Management Subcabinet for their review.

RECOMMENDATIONS

1. The Department of Administrative Services Should Redefine Its Role To Establish Guidelines And Serve As A Consultant To Agencies On Improvements In Their Fiscal And Management Systems, Including Their Internal Audit Program.

DAS has reexamined the role of the old Bureau of Audits and has established a new Division of Fiscal and Management Systems. This Division will change its emphasis from actually providing audits for the smaller departments to helping all agencies develop or improve their own internal auditing programs. The Division will be available to review existing systems, suggest appropriate changes, provide necessary training and continually upgrade management and fiscal expertise in both new and established agencies. Legislation (attachment A) will be introduced to amend the outdated statute for the old Department of Finance.

2. Revisions Should Be Made To The Internal Auditing Act.

Attachment B is a revision to the Internal Auditing Act. This revision is needed in order to reflect current internal auditing practices and provide statutory authority for performing internal audits in accordance with highest professional ethics.

3. Training Programs Should Be Standardized For New Fiscal And Audit Personnel.

The Division of Fiscal and Management Systems should be responsible for coordinating and developing training for all aspects of fiscal, compliance, and EDP audits. The Division will provide a central clearinghouse for training information. An approach, similar to that utilized by Continental Bank, will be developed. Continental Bank's training includes individual analysis of an employee's educational needs, and appropriate training to meet those needs. Each training course offered is evaluated for cost effectiveness and content. All training schedules are centrally maintained and updated. Through the use of universities, government and professional organizations, this standardized approach will insure a more effective program of continued education.

4. Agency Management Should Be Educated In The Effective Utilization Of The Audit Function.

In order for management to maximize use of their audit function, they must understand how this valuable tool can work for them. Management should recognize internal auditing's proper role as a viable part of the management decision making process.

5. A New Personnel Classification For Internal Auditors Should Be Established.

Working with the Department of Personnel, the Audit Issues Subcommittee hopes to establish a series of classifications to more accurately reflect the growing profession of internal auditing.

6. Internal Auditors Should Be The Agency's Official Liaison To The External Auditors.

Auditors should be instructed on the proper relationships of internal and external auditors. When both functions are properly performed, the work should be complimentary, without confusion, duplication or conflict. The internal auditors are specialists in their agencies. Therefore the internal auditor should act as liaison to the external auditors to insure proper management review of their findings, including input into the audit exit conference and written agency responses.

7. General Audit Guidelines Should Be Developed.

Broad guidelines should be developed to insure adequate procedures for planning, conducting, reporting, implementing and follow-up of audits. These guidelines would be available for all agencies and would assist agencies in establishing new internal audit programs.

8. Closer Interface With The Governor's Office Should Be Established.

The Governor's Office has expressed that internal auditing will receive increased attention in FY'82. Provisions will be made for internal audit activities to be a major topic of discussion during the Quarterly Review process. Agencies should work with the Governor's Office in promoting the audit process.

9. Criteria Should Be Developed To Assess Agency Needs For An Internal Audit Program.

Defined criteria is necessary to evaluate an agency's need for a full-time internal audit function. Also, for those agencies determined not to require a full-time audit function, a mechanism must be developed to insure adequate internal control. This should be accomplished through development of a self-evaluation questionnaire and training of high level (non-operational) personnel in auditing/evaluation techniques.

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35.4 Integrity of financial and management reporting systems of State agencies -  
~~Procedural-audits-and-financial-reporting-by-state-agencies--~~ Responsibility of  
Department

§ 35.4. The Department shall be responsible for ~~procedural-audits-of-and~~  
~~financial-reporting-by~~ assisting state agencies in establishing and maintaining  
an adequate internal audit program and financial reporting system in a manner to  
~~provide-fiscal-control-of-the-state-agencies~~ without interference with the state  
agencies' programs. In performing this responsibility, the Department shall have  
the power and duty to:

(a) Establish ~~principles-and-standards-of~~ financial accounting and  
statistical reporting requirements by for state agencies which will satisfy the  
requirements for management analysis and review as specified by the Governor or  
as requested by an agency.

(b) ~~Perform-periodical-procedural-audits-of-state-agencies-to-determine~~  
~~that-adequate-internal-fiscal-controls-exist-within-the-agencies,-that-proper~~  
~~procurement-practices-are-employed,-that-the-receipt-and-expenditure-of-funds~~  
~~are-accurately-and-legally-reported,-that-statistical-procedures-conform-to-~~  
~~those-established-pursuant-to-paragraph-(a)-above,-and,-that-the-financial-~~  
~~controls-and-transactions-conform-to-executive-and-legislative-directives.~~  
Provide assistance to agencies in establishing and maintaining their financial  
and management reporting systems in accordance with paragraph (a) and other  
statutory requirements.

(c) Require periodic specific statistical and financial reports from  
state agencies pursuant to paragraph (a) above. ~~showing-the-status-of-app-~~  
~~ropriations,-including,-but-not-limited-to,-expenditure,-encumbrances,-estimates~~  
~~of-expenditures,-and-receipts,--Such-reports-shall-contain-the-data-requested~~  
~~and-be-prepared-in-the-manner-and-form-prescribed-by-the-Department.~~

(d) At the request of the Governor, examine the accounts of any organization, body or agency receiving an appropriation from the General Assembly.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

AN ACT relating to internal auditing in State Government.

Laws 1967, p. 2938, approved and effective August 11, 1967, as amended, is to read as follows:

Ch. 127, Par. 136.1 Program of internal auditing.

Section 0.1. This Act shall be known and may be cited as the "Internal Auditing Act".

§1. All Departments of State Government subject to "The Civil Administration Code of Illinois", the Secretary of State, the State Comptroller, the State Treasurer, the Attorney General, the ~~Superintendent of Public Instruction~~ State Board of Education any any other State agency designated by the Governor, shall establish a program of internal auditing.

136.2 Qualifications of internal auditor.

§2. The head of the internal auditing programs established under this Act shall have: ~~as its head an internal auditor who is a certified public accountant or an auditor or accountant with 5 years experience and who is responsible directly to the chief executive officer of a department of State Government, elected State official or State agency, in the exercise of auditing and fiscal controls~~ 5 years auditing experience; or 3 years auditing experience and be either a certified public accountant or a certified internal auditor.  
The head of the internal auditing program shall report directly to the chief executive officer of a State agency, in the exercise of auditing activities, and shall be free of all operational and management responsibilities which would impair the auditor's ability to make independent review of all aspects of agency operations.

136.3 Powers and duties of internal auditor

§3. In performing his the duties under this Act, each internal auditor shall, in addition to any other power or duty authorized by law, or required by professional ethics, ~~have the power and duty to:~~ or assigned consistent with this Act, shall have the powers necessary to carry out the duties required by this Act, and shall be charged with the duty to maintain an adequate program of internal auditing required by professional ethics and standards.

~~(a)--Conduct-procedural-audits;~~

~~(b)--Audit-all-appropriation-accounts-of-the-department,-office-or-agency;~~

~~(c)--Audit-all-revenue-accounts;~~

~~(d)--Pre-audit-all-requests-for-purchases;~~

~~(e)--Assist-and-advise-in-the-preparation-of-budgets;~~

~~(f)--Report-periodically-to-the-chief-executive-office-of-the-Department of-State-government,-elected-State-official-or-State-agency-on-the status-of-the-budget;~~

~~(g)--Report,-at-any-time,-to-the-Department-of-Administrative-Services, the-chief-executive-officer-of-the-Department-of-State-government, elected-State-official-or-State-agency-on-any-matter-of-finance-or-fiscal policy-and-make-recommendations-thereon;~~

~~(h)--Conduct-all-other-duties-and-responsibilities-accepted-within-the-general principles-of-accounting-as-duties-of-an-internal-auditor;~~

136.4 Consultations by internal auditor.

§4. Each internal auditor appointed under this Act may consult with the Auditor General, the Department of Administrative Services, the Illinois Economic and Fiscal Commission, the Appropriations Committees of the General Assembly and the Bureau of the Budget on matters affecting his the duties or responsibilities under this Act.