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Date 2023

Institute of Internal Auditors

Dear IIA Standards Committee:

We would like to first thank you for the opportunity to provide our comments regarding the proposed revisions to the Institute of Internal Auditors (IIA) Standards. We represent the State of Illinois Internal Audit Advisory Board (SIAAB). The mission of SIAAB is to promulgate a uniform set of professional standards and a code of ethics, based upon the standards and ethics of the IIA, the General Accounting Office, and other professional standards as applicable, to which all State of Illinois Internal Auditors must adhere. We represent internal audit functions at 54 Illinois State Agencies, Universities, Retirement Systems and Constitutional Offices. SIAAB also serves as a clearinghouse for internal auditor training needs and ensures training is designed to meet those needs. We have met that obligation for over 45 years by working closely in partnership with the Springfield, Illinois IIA Chapter, which was formed to meet the specific government related training needs of State of Illinois Internal Auditors. SIAAB is also responsible for coordinating quality assurance review activities among the State's internal audit functions.

An essential part of providing direction to Illinois State Internal Auditors is through the issuance of guidance documents, which provides direction to State of Illinois Internal Auditors as to how to comply with the Standards and requirements within our environment. The website for SIAAB can be found at <https://siaab.audits.illinois.edu>. The link to the SIAAB Guidance can be found on that home page. Because in Illinois we place a heavy reliance upon the IIA Standards to ensure the quality of the Internal Audits conducted by the various State agencies, it is essential that the Standards provide a clear and reasonable framework under which our members can provide quality internal auditing services. We have worked hard to ensure that the internal auditors within our state retain their independence and have the appropriate authority to conduct their business by ensuring that they report directly to the head of their State Agency, Constitutional Officer or have a dual reporting relationship to the head of their agency and their board, in cases where a state operation has a board. This has not always been an easy task, but we have been able to rely on the Standards and other clear guidance provided by the IIA through Practice Advisories and other resources. We have outlined below areas of the proposed revisions to the Standards for which we have concerns.

Proposed Standards are too Prescriptive and Restrictive

Standards for the Internal Audit function should provide the framework under which a Chief Audit Executive must operate but provide the flexibility for them to apply their professional judgment to appropriately implement what is needed. This has historically placed the obligation on the Chief Audit Executive to establish written procedures as to how they are going to address a particular requirement in order to meet the Standards. This flexible framework, as opposed to a rigid one, is important because the Standards apply to a vast array of organizations that span the entire globe, each with their unique circumstances and environment. There are also different types of organizations from publicly held companies, privately held companies, not-for profits, Federal Government, State Government and Local Government. Because of the differences in these organizations, there is not a perfect one size fits all solution, which is why it is important that the Standards provide a framework but not overly dictate a process. The Chief Audit Executive can then apply that framework to their particular environment. The Chief Audit Executive must be allowed to utilize their professional judgment. It is not as black and white as public accounting. We have encountered newer colleagues to the internal audit profession that have come to internal audit from external audit firms that quickly learn that internal auditing is not the same practice as external auditing. It appears that many sections of the new Standards are written from a slant of people with more of an external than internal audit background as they are too restrictive. A Chief Audit Executive absolutely must be held to a Standard Practice but must be allowed to utilize their professional judgment.

Overuse of the Word “Must”

There is an overuse of the word “must” especially when it comes to dictating how a process should be implemented with a specific methodology, as opposed to stating that the Chief Audit Executive must have a documented process as to how to handle that particular process. This extreme overuse of the word “must” throughout the new Standards greatly hinders the ability of the Chief Audit Executive to perform their duties. One of our colleagues noted that the new proposed Standards includes 304 references to the word “must”, including 45 references pertaining to the Board whereas the 2017 version of the Standards referenced the word “must” 130 times. The word “should” is referenced 290 times in the new proposed Standards and the 2017 version of the Standards referenced the word “should” 15 times. This overuse of the word “must” has taken away the Chief Audit Executive’s ability to utilize the professional judgment in implementing the appropriate internal controls and requirements within their internal audit functions.

Dictating Responsibilities of the Board do not Belong in Internal Audit Standards

We believe the IIA has no authority over a board to place any mandates upon them. Furthermore, the Chief Audit Executive does not have authority over the board to enforce those requirements. Having that part of the Standards, although well intentioned, is setting a Chief Audit Executive up for failure because they have no ability to enforce compliance with this Standard. Providing suggestive guidance that is not mandated such as within a Practice Advisory is a better venue to address this than placing it within the Standards. It becomes even more tenuous in a government environment where the board is often the head of their agency or constitutional officer. The Chief Audit Executive has no power to tell their boss what to do, nor would that be advisable. Providing

guidance and direction to them, absolutely, but not mandating anything, especially not through an internal auditing standard. This is simply unenforceable and inappropriate to be included within the Standards.

Principle 8 Page 37 “Additionally, the board should participate in the decision to appoint the chief audit executive by reviewing candidates’ resumes and curricula vitae and participating in interviews before a candidate is selected.”

This language is too prescriptive and is dictating a specific practice outside the direct control of the internal audit function. In the public sector in Illinois, the head of the agency ultimately appoints the chief audit executive but their direct involvement throughout that process varies extensively. It is not unusual for them to not participate in the initial screening or even the initial interview of the pool of candidates.

Page 37 “Meeting minutes or other notes from discussions of non-audit roles and responsibilities, potential impairments, and board approved plans for safeguards.”

This does not exist in public entities that don’t have a board. The head of the agency under this description would be having a discussion with themselves. This discussion occurs between the chief audit executive and the head of the agency in cases where the board is the agency head. This qualification should be listed for the public sector.

Definition of Chief Audit Executive and Roles, Responsibilities and Qualifications

We do not agree with the statements on Page 3 of the Glossary and Page 49 “Managing the Internal Audit Function”, that the title of “Inspector General” is an appropriate title synonymous with the role of Chief Audit Executive. Our industry has fought hard for the recognition of the Internal Audit practice. Allowing the use of a non-audit title to be recognized as an appropriate head of Internal Audit waters down that recognition as Internal Audit as a separate and important discipline. We do not believe the title of “inspector general” to be an equivalent to the stated audit related titles, which are acceptable within our industry. We believe the use of “inspector general” as an acceptable title should be removed. If the intent was to recognize at some entities there are other persons charged with the internal audit responsibilities, it would be better to state after the common industry terms for the head of internal audit or a position that is charged with the execution of the internal audit responsibilities. We all know if that is the way the entity is structured the head of internal audit may have little ability to change their title. However, that does not mean we should recognize or endorse titles within our Standards that are not usually responsible for the internal audit function.

Chief Audit Executive Roles, Responsibilities and Qualifications Page 35, “The chief audit executive’s primary role is to manage the internal audit function, including its performance of internal audit services, as described in Domain IV. Managing the Internal Audit Function. The board must understand the actual or potential impairments to the internal audit function’s independence before assigning the CAE additional roles or responsibilities beyond the scope of internal auditing.”

If non-audit roles and responsibilities impair or appear to impair the internal audit function's independence, the board must ensure appropriate safeguards are implemented. (See also Standard 7.3 Safeguarding Independence.)

Page 36, "Before taking on any non-audit roles and responsibilities, the chief audit executive must communicate the implications of such and propose safeguards to manage actual, potential, and perceived impairments to the board.

After taking on any approved non-audit roles and responsibilities, the chief audit executive must confirm to the board that appropriate safeguards to the internal audit function's independence have been implemented and are effective."

What safeguards are considered sufficient if the chief audit executive or auditors are assigned non-audit roles and responsibilities? Doesn't this effectively shield those functions from an independent internal audit? What is the expectation?

Page 36 "A new regulatory requirement prompts an immediate need to develop policies, procedures, controls and risk management activities to ensure compliance."

This is a textbook example of an activity that violates the independence of internal audit and should never be allowed. It is acceptable for internal audit to consult with the area in an advisory capacity but never create or develop those policies, procedures, or controls.

Page 36 "The chief audit executive has the most appropriate expertise to adapt existing risk management activities to a new business segment or geographic market."

This is again a textbook example of what not to do if you want to be an independent internal audit function. It would be correct to say "advise on adapting" but the internal audit function should never create these.

Page 36 "The organization's processes are immature, and the chief audit executive has the most appropriate expertise to initiate a risk management plan or program."

This is again a textbook example of what not to do if you want to be an independent internal audit function. It would be correct to advise them about appropriate processes, but the internal audit function should never create these.

Page 36 – Considerations for Implementation and Evidence of Conformance – Shouldn't there be a Public Sector section here that recognizes that in many cases there are laws or regulations that govern the internal audit functions in the public sector? For example, the Fiscal Control and Internal Auditing Act (FCIAA) Act in Illinois (30 ILCS 10/2002) defines Chief Internal Auditor (chief audit executive) qualifications.

Internal Audit Charter Page 53 Free and open access to records and people should be a requirement included in the Internal Audit Charter. That is not listed here.

Functional vs. Administrative Duties and Use of the Term Senior Management

The use of the term “Senior Management” throughout this document does not translate well in the public sector, at least in Illinois. There could easily be confusion about who is included in the term “Senior Management.” This term could easily be interpreted to mean the management heads of the various areas for which we are responsible for auditing. If it is interpreted in that manner, this would affect our independence as several of these items are not things we would discuss with or obtain approval from this group. Some of the references include but are not limited to the Audit Charter, technology needs and funding, budget, quality and content of engagement communications, resource limitations to name a few.

On Page 3 of the Glossary, under the definition of “Board.” This same point is also restated on page 28 under “Governing the Internal Audit Function.” We do not agree with the following: “. . . or the senior management team to act as the highest-level governing body.”

Within Illinois State government we have fought hard for functional reporting to the head of each State Agency for those under the Governor or directly to the Constitutional Officer in all other cases. This statement seems to imply that we could report to a group of management that we are required to audit. Reporting directly to those we are auditing would impair our independence. This statement should be removed or a clarification should be made.

Page 30 “Before gaining board approval, the chief audit executive should review the proposed internal audit charter with senior management to ensure they understand and support the board’s expectations.”

In government, senior management does not decide anything regarding the Internal Audit Charter. It is up to the head of the agency to agree to the content of the Internal Audit Charter and approve it. A copy is then distributed annually to senior management, along with the approved Internal Audit Plan. To have senior management be involved with the creation and adoption of the Internal Audit Charter would create an independence issue since they are responsible for the areas that we audit.

Page 32 “The board should ensure the chief audit executive reports administratively to an individual in the organization who is able to support the internal audit function’s pursuit of the mandate. Ideally, this individual should be the chief executive officer or equivalent.”

In the public sector for which there is no board, the chief audit executive reports functionally to the head of the agency and administratively to some other high-level person, typically a Chief of Staff or second in command such as a Deputy. This is because it is not a good use of the time of the agency head to handle administrative duties such as signing time off slips of the chief audit executive or other ministerial duties. The agency head is accountable for the functional activities of the audit organization and the chief audit executives work with them on the implementation of the audit program and activities. It is essential that the Standards remain clear that the Chief Audit Executive must report directly to the head of the agency or have dual reporting to an agency head and the board in the case of an agency with a board.

The practice advisory that addresses functional vs. administrative reporting correctly identified administrative vs. functional. The Illinois State Internal Audit Advisory Board (SIAAB) also provided clarification of this issue to our members in guidance issued by that board to state chief audit executives. Please refer to the “SIAAB Guidance” area of our website at: <https://siaab.audits.uillinois.edu/>. It is critical for public agencies that this clarification between functional vs. administrative reporting remains in order to prevent the Internal Audit function from being forced into a lower-level reporting arrangement for its functional activities. It is essential to the operation of a viable internal audit function that the chief audit executive functionally report to the head of the agency.

Page 32 Under Evidence of Conformance, “Minutes or other documentation of communication between the board and senior management in which the internal audit function’s unrestricted access was discussed.” “A jointly agreed-upon matrix or similar documentation showing what information should be communicated by the chief audit executive to the board.” “Documentation of discussion of access to the data, records, personnel, and physical properties required to perform internal audit services.”

In the public sector, the Internal Audit Charter is discussed and approved by the head of the agency. It is then distributed to senior management along with a copy of the approved internal audit plan, it is not discussed with them. There is no agreed upon matrix for discussion, in many public sector organizations there are common topics covered in the periodic meetings that are held between the chief audit executive and the head of the agency. The access to data, records, personnel, and physical properties to perform internal audit services is included in the Internal Audit Charter approved by the head of the agency.

Page 34 “Typically, the board, senior management, and the chief audit executive discuss the reporting relationships that best enable the internal audit function to fulfill its mandate.”

Page 34 “To achieve this authority, it is usually ideal for the chief audit executive to report administratively to the chief executive officer or equivalent, although reporting to another senior officer may achieve the same objective as long as appropriate safeguards are implemented.”

We are concerned about this wording and allowing senior management to make this decision. It should be clarified in the public sector that where the board is the head of an agency, a discussion is held between the head of the agency and the Chief Audit Executive to gain an agreement on functional vs. administrative reporting activities. It must be clear that all functional, sometimes referred to as programmatic activities or actual audit function responsibilities be between the chief audit executive and the head of the agency and no intermediary or lower-level management staff. This gives proper recognition of the internal audit function within the organization. We also do not believe reporting to another senior officer can ever achieve independence since the internal audit function must be able to independently audit all functional activities of the agency. This cannot be independently achieved if the function reports to any operational area.

Page 49 “In addition the chief audit executive typically has an administrative reporting line to the highest-ranking person in senior management, such as the chief executive officer, to support day-to-day activities and establish the status and authority necessary to ensure the results of the

internal audit services are given due consideration.”

There seems to be a disconnect with functional vs. administrative reporting when it comes to the public sector. In the public sector, the chief executive officer (agency head or constitutional officer) is who the chief audit executive functionally reports to, and it is common to administratively report to the next higher-level person under that such as a Chief of Staff or Deputy. Administrative duties include such things as approving the chief audit executive’s time off and other ministerial tasks.

Section 2.3 Page 16, 17 “If internal auditors become aware of an impairment that may affect their objectivity, they must disclose the impairment to the chief audit executive or a designated supervisor. If the chief audit executive determines that an impairment is affecting an internal auditor’s ability to perform duties objectively, the chief audit executive must discuss the impairment with management of the activity under review, senior management, and/or the board and determine the appropriate actions to resolve the situation.”

The resolution of a potential impairment and its resolution is the job of the Chief Audit Executive not the specific auditee or senior management.

Page 56, “Additionally, internal audit methodologies describe processes and procedures for communicating, handling operational matters, and performing services in addition to assurance engagements, which the chief audit executive determines in agreement with senior management and the board.”

Why would audit methodologies require senior management (auditee) agreement?

Page 57, “The chief audit executive must review and revise the internal audit plan as necessary and communicate timely to senior management and the board:”

Another use of the term senior management that does not translate well to the public sector. In the public sector, changes to the audit plan are discussed with and agreed to by the agency head not senior management. The changes to the audit plan need would be conveyed only to the areas that are affected by the change to notify them of the change.

Resource Management Page 62, “The chief audit executive must present the budget to the board for approval. The chief audit executive must communicate timely the impact of insufficient financial resources to senior management and the board.”

Page 62, “Public Sector

“When the budget is set by law or regulation, the chief audit executive still must determine how to allocate internal audit function resources within the given budget and must notify the board and management when the budgeted financial resources are inadequate.”

Why would the CAE need to notify the auditee (management) of inadequate financial resources? In Illinois we would notify the head of the agency.

Page 63, “Minutes of meetings in which the chief audit executive discussed the internal audit budget with senior management and the board.”

The use of the term senior management once again does not translate well to the public sector. This would be discussed with the agency head if necessary. The Chief Audit Executive is given the authority to propose and implement their own budget. If there is any problem with the budget and what was requested, the Chief Audit Executive brings it to the attention of the agency head (Board for a public agency). We would never involve senior management, which to us is the management of the various areas we are auditing. Such discussion would be documented in the minutes of my periodic meeting or memorialized in an email or other documentation.

Human Resources Management Page 64, “If the resources are insufficient to cover the planned engagements, the chief audit executive may provide training for existing staff, request an expert from within the organization to serve as a guest auditor, hire additional staff, rely on other assurance providers, develop a rotational auditing program, or contract with an external service provider. External service providers may provide specialized skills, complete special projects, or perform a limited number of engagements.

If you utilized an expert in the subject audit area within the organization to serve as a guest auditor it would likely raise independence issues. This does not seem appropriate. The chief audit executive would be responsible for seeking out an expert if they deemed it necessary depending on the scope of the audit. I think in most cases, you would just need valid criteria to test for anything, you do not have to have staff that are an expert in the area in most cases. Again, this is overreaching and should be up to the discretion and professional judgment of the Chief Audit Executive to decide.

Page 65 “In the public sector, the chief audit executive may not have the authority to make remuneration decisions but should still collaborate with the human resources function to ensure that job classifications specify the appropriate competencies and qualifications for internal auditors and that recruitment and retention efforts include assessments of those competencies.”

There are other limitations to hiring that may exist in the public sector, at least in Illinois. The internal auditor positions are dictated by a statewide classification system. Therefore, the Chief Audit Executive is severely limited in their ability to dictate minimum competencies. Instead, they must adhere to what is decided upon for the classification by an outside party. They may have the ability to periodically affect some change to that class but it is a very limited ability.

In addition, in Illinois many of the internal auditor positions are in the union so if a position is posted and a union internal auditor from another agency is interested in the position the most senior interested internal auditor has a right to transfer to that position in which case no interviews are conducted and there is no ability for the Chief Audit Executive to select the candidate. However, if there are no union transfers, then there is an interview process under which the best candidate is selected after interviews from a pool of pre-qualified candidates.

Technological Resources Page 66, “The chief audit executive must communicate the impact of

technology limitations on the effectiveness or efficiency of the internal audit function to senior management and the board. Present sufficiently supported technology funding requests to senior management and the board for approval. Develop and implement plans to introduce approved technologies. Plans should include training internal auditors and demonstrating the realized benefits to senior management and the board”

The use of the term senior management does not translate well to the public sector. This would be discussed with the agency head if necessary. The Chief Audit Executive is usually given the authority to propose and implement information technology needs. If there is any problem with what they have requested, they bring it to the attention of the agency head (Board for a public agency). We would never involve senior management, which to us is the management of the various areas we are auditing.

Page 55 “The administrative reporting relationship may be established by law and may be to the board only and not to management.”

This is a confusing statement regarding the public sector. You would never want the chief audit executive to report to general management as that would affect their independence. Again, there is a need for clarification of functional vs. administrative reporting in the Public Sector. It needs to be clear that a chief audit executive cannot report functionally or administratively to a line manager who is managing a function they are charged with auditing. This must be clarified for the public sector, or it will create significant independence problems.

Page 55, “Once drafted, the proposed charter should be discussed with senior management and the board to confirm that it accurately reflects their understanding and expectations of the internal audit function. The chief audit executive should present a final draft during a board meeting to be discussed and approved.”

This is another area that does not translate to the public sector well in cases where the board is the head of the agency. Why would the audit charter be required to reflect senior management (auditee) expectations? They are our auditees so this would affect our independence.

Engagement Resources Page 94 “When resource limitations interfere with the internal audit function’s ability to achieve the engagement objectives, the engagement supervisor is responsible for escalating the concern to the chief audit executive. The chief audit executive is responsible for discussing with senior management and the board the implications of resource limitations and determining the course of action to take. For example, when the chief audit executive is unable to obtain the necessary resources, the engagement scope may need to be reduced. (See also Standard 10.1 Financial Resource Management, Standard 10.2 Human Resource Management, and Standard 10.3 Technological Resources.)”

Resource limitations is a bad example. If the chief audit executive is unable to obtain necessary resources, they would discuss it with the agency head (Board) not senior management. Again, this is an issue with translating this to the public sector and needs to be clarified. The Chief Audit Executive would discuss limitations caused by the auditee such as failure to produce documents in a timely manner initially with the auditee. If the issue can’t be resolved with senior

management, it would then be elevated to the agency head (Board).

Advisory Consulting Services vs. Assurance Services

The Standards do not address informal advisory services. Those services most likely would not cause any impairment. This includes consultation with various management or staff regarding requirements and practices that need to be adopted by providing general direction. Usually, this is within the context of what an Internal Auditor would expect to find.

Also, overall, when it comes to advisory services it depends on what was provided as to whether there is an impairment. What should be required is that the chief audit executive review the facts and document their decision regarding how to proceed based upon whether an impairment exists or not. The standards should require the chief audit executive to have written procedures regarding how this process is handled the standards should not dictate the way it should be handled.

Page 84 “Internal Auditors are expected to apply and conform with the Standards when performing engagements, whether they are providing assurance or advice, except when otherwise specified in individual standards.”

Internal Audit services provided typically fall within assurance, informal advisory services, and formal advisory services. The required documentation, if any, is different based upon the type of service. Informal advisory services (refer to the IIA Practice Aid regarding an excellent description of what this entails), usually has no documentation that is required. A prime example is advising an area regarding written procedures they are revising or creating as to possible items to include. Note that internal audit can provide advice and direction but never write the procedures. In regard to formal advisory services, in many instances this means conducting only Preliminary Survey work and providing feedback regarding the completeness of controls or suggestions. It often does not include testing or only includes limited testing. If the project became more detailed, it would be converted to an assurance engagement. Likewise, in some instances a process needs so many improvements an originally planned assurance engagement may be converted to an advisory engagement, often with the vision after items are corrected a full assurance engagement may be conducted at some later date as a different engagement.

This section should also include a discussion and recognition of informal advisory services and formal advisory services.

Internal Audit Planning and Strategy

Internal Audit Strategy Page 52 Overall requirement of 9.2 and dictating audit strategy.

Dictating how Internal Audit strategy is implemented is too restrictive and overreaching. That is between the board (agency head for public sector) and the Chief Audit Executive. This can take many forms and therefore should not be dictated as to how it is done, especially since the how is most likely out of the control of the Chief Audit Executive. We do agree an Internal Audit Plan should be multi-year and cover at least a two-year period. However, there should be a new assessment conducted annually where a new two-year plan is created. Adjustments to the Internal

Audit Plan are then made throughout the year as needed after discussion with the head of the agency.

Risk Assessment

Page 89 “Internal Auditors may create a chart, spreadsheet, or similar tool to document the risks and the controls . . . “

First, nowhere in this section does it talk about the most important item in understanding and documenting a process and that is a detailed system narrative. Without that, nothing else can really be relied upon. It forms the basis for a good process. This implies that the only way to document your risk assessment is with a risk and control matrix. We find it better to create a detailed system narrative and have a documented risk assessment meeting where the team walks through the risks, controls and what should be tested. The risk assessment could be documented in a Word document it does not have to be a spreadsheet or matrix. Again, the specifics are up to the Chief Audit Executive. A particular process or means to achieve this should not be dictated in the standards. The important point is the Chief Audit Executive must have a documented methodology.

The entire details about the matrix and how it is used is a personal preference of someone placed within the Standards. There are other ways to achieve the same results and many experienced practitioners have established ways they believe are better. The point is there are various ways the chief audit executive can comply with this requirement, and they should be allowed to do so. This dictates a very prescriptive process which may not be the best solution for a particular audit shop and the environment within which they operate. The focus of this requirement should be on the need to have a documented process not a prescriptive how to accomplish that process.

Work Program Page 95 “To develop the work program, internal auditors can expand the risk and control matrix by linking the risks and controls with a testing approach to be implemented. As analyses and evaluations are conducted, the matrix can be expanded to link the risks and controls to the findings, recommendations, and conclusions.

Again, this goes on about someone’s use of a risk and control matrix, which is not something everyone uses nor should they have to use one. A similar process can be conducted without the use of a matrix. This is too prescriptive. The chief audit executive needs to document the risks but how they do that and how they show it is tied to the audit program and the actual work performed should be up to the professional judgment of the chief audit executive. Any references to just a matrix should be removed.

Pag 96 “Risk and control matrix with testing approach.”

Again, it should talk about documentation of an understanding of the process and the related risks and controls not the development of a risk matrix. Also, this section doesn’t even mention a detailed system narrative, which auditors know is the starting point of the risk assessment process, in gaining a sufficient understanding of the process.

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The entire details about the matrix and how it is used is a personal preference of someone placed within the Standards. There are other ways to achieve the same results and many experienced practitioners have established ways they believe are better. The point is there are various ways the chief audit executive can comply with this requirement, and they should be allowed to do so. This dictates a very prescriptive process which may not be the best solution for a particular audit shop and the environment within which they operate. The focus of this requirement should be on the need to have a documented process not a prescriptive how to accomplish that process.

Objectives and Scope

Section 13.3 Page 90, “The scope establishes the engagement focus and boundaries by specifying the activities, locations, processes, systems, components, and other elements to be reviewed and the period of time to be covered in the engagement. The scope must be sufficient to achieve the engagement objectives. Scope limitations must be disclosed in the opening and final engagement communications.

This statement does not make sense. Usually, a scope limitation is not known at the opening conference. Scope limitations when they occur happen as a result of the inability to assess something that was planned in the original scope of the audit. If such a limitation occurs, it should be appropriately discussed in the final communication (Final Report).

Page 91 “Internal auditors communicate the objectives, scope, and timing of the engagement during the opening conference or entrance meeting.”

Again, not true for many and this is too prescriptive. Many Internal Audit shops have a general scope of work at the opening conference, but the details of the engagement are worked through as a result of Preliminary Survey work. This is too prescriptive to a process someone is used to following that we totally disagree with being the only process. You really need the Preliminary Survey work to substantiate the work you are going to perform. Instead, what is appropriate is that the chief audit executive has a documented process in place for how they gain an understanding of the process and the related risks, the means by which they document their risk assessment and how information is communicated to the auditee.

This fails to address informal advisory services, for which there usually is not much if any supporting documentation and certainly would never rise to that of an assurance engagement. In addition, formal advisory services, would have limited documentation when compared to an assurance service. One common approach to providing formal advisory services is to cover preliminary survey or a control assessment, which would either have no testing or limited testing.

A stakeholder (auditee) should never be allowed to limit the scope of the audit. That by definition would be an impairment to independence if the auditee had that kind of influence over the auditor’s scope of work. This statement should be removed.

Evaluation Criteria

Evaluation Criteria Page 93 “When evaluating the adequacy of the criteria, internal auditors should determine whether the organization has established basic principles about what constitutes appropriate governance, risk management, and control practices. Internal auditors should consider whether management has clearly articulated its risk tolerance, including materiality thresholds for various business units, functions, or processes. Internal auditors also should ascertain whether the organization has adopted or clearly articulated a definition of control and should identify management’s understanding of what constitutes a satisfactory level of control. For example, satisfactory could mean that a certain percentage of transactions within one control objective are conducted in accordance with established control procedures or that a certain percentage of controls overall are working as intended.”

This is written from an external auditor perspective of a publicly traded entity related to Sarbanes Oxley (SOX) key controls testing and methodologies. This does not translate well to all of the other IIA constituents who are not required to comply with SOX. From our perspective, we are not clear how measuring the percentage of controls working would be an acceptable measure that a control is functioning as intended. Wouldn’t all critical controls need to be working as intended in all instances? Why would one design a control that is only expected to work say 50% of the time?

Rating System

Requiring an overall rating system is too prescriptive and unnecessary. We believe it would be detrimental to our process to mandate such a requirement. What is necessary is that we indicate the significance of each individual finding.

Page 4 of the Glossary- Finding is defined only as a determination of current significant risk. Sometimes a finding might not currently involve a significant risk but may evolve into one in the future if it is not addressed. It is our experience that many internal audit shops use Material, Immaterial and Observation as their ranking of issues.

Section 14.3 on Page 99 “Internal auditors must provide a rating, ranking, or other indication of priority for each engagement finding, based on the significance of the finding, using

methodologies established by the chief audit executive.”

Page 100 Additional items regarding rating systems should be removed.

This is unclear and seems to imply you must have a rating system such as pass fail etc. The Chief Audit Executive could certainly implement a rating system if it works for their organization, but it should not be a mandate as it would have a detrimental effect for many. A simple notation of identifying findings as material, immaterial or an observation is more than adequate for most internal audit shops. The process should be up to the discretion of the Chief Audit Executive, and they should document their process in their written procedures

Page 56 “For example, to support internal auditors in evaluating engagement findings and conclusions, the chief audit executive should develop a methodology and scale for rating, ranking, or otherwise indicating the significance of individual engagement findings and the significance of the engagement conclusion, based on consideration of the engagement findings in aggregate.”

This is too prescriptive and is dictating a preference to have some scale, rating or ranking. Having such a requirement would have a significant negative impact on the internal audit function within the state of Illinois. Each finding stands alone and is a constructive means of improving controls and the function. You want it to be a constructive process not a negative one. Ranking as area with terms such as fail, unacceptable, does not meet or any other overall negative connotation is absolutely the wrong approach for most. The Chief Audit Executive could certainly implement that if it works for their organization, but it should not be a mandate as it would have a detrimental effect for many. A simple notation of the identification of findings as material, immaterial or an observation is more than adequate for most internal audit shops. This is overly restrictive and dictating someone’s preference as to how it should be done rather than addressing that the Chief Audit Executive needs a documented process. This should be up to the discretion of the Chief Audit Executive, and they must document their process in their written procedures.

Developing Engagement Conclusions Page 102 “Chief audit executive must develop an engagement conclusion. An engagement conclusion in the internal auditor’s judgment about the overall significant of the engagement findings when viewed collectively.”

“Based on the engagement conclusion, internal auditors must issue a rating, raking, or other indicator of the significance of the aggregate findings.”

Various other areas throughout this section regarding a ranking system are again too prescriptive and are an individual’s preference but should not be a mandate.

Disagree that you need an overall conclusion regarding the collective significance of the findings. That is similar to a ranking or rating and that is not necessary or productive. In fact, it would most likely create a hostile relationship and make it more difficult to convince the auditee to implement change. The conclusion within each individual finding serves a better purpose for us. This again is too prescriptive and dictates someone’s preference for a particular process. How this is done should be left up to the professional judgment of the chief audit executive.

Page 102 “The conclusion may add context regarding the impacts of the findings within the activity under review and the organization. For example, some findings may have a material impact on the achievement of goals or the management of risks at a micro level, but not at a macro level (for example, the failure to manage potential duplicate payments may be material to a subsidiary but not to the organization as a whole). Internal auditors should consider how well the controls in place manage the risk to the achievement of management’s objectives.”

The audit is conducted, and conclusion made, of the activity under review not the organization as a whole. Controls are designed and implemented at a sub-unit level because they are necessary to be functioning to allow for the organization as a whole to meet its objectives. Because a particular finding at a particular point in time may not identify a material monetary effect on the organization as a whole, is no justification for no corrective action to correct instances of duplicate payments. This appears to be the application of someone used to performing only financial impact audits. The majority of internal audit work goes way beyond strictly the financial area and often covers areas that do not have a direct financial audit. Compliance with laws, rules and processes often do not have a direct financial impact in the public sector but audits of this nature encompass a large portion of our work.

Final Engagement Communications Page 105 “The findings and the ratings, rankings, or other indication of the significance of the findings.”

Page 106 “Ratings for the engagement as a whole (based on the conclusion, for example, satisfactory, marginal, unsatisfactory, pass or fail).

Again, don’t need a rating or ranking. This is too prescriptive and someone’s personal preference that takes away the chief audit executive’s judgment in how best to execute the internal audit program within their particular internal audit shop. The terms used above would cause significant issues with the auditee if used within an internal audit report.

Most state agencies in Illinois rank their individual findings as material, immaterial, or an observation. If there are material findings, then the process would, by definition, be considered ineffective since only non-compliance with a critical control or requirement would result in a material finding. Again, the standards should state the Chief Audit Executive should develop procedures for communicating the importance of the various individual findings but should not dictate how it should be done. The standards should also not mandate an overall conclusion.

Engagement Communications

Engagement Communication Page 85, “The closing communication must include discussion of:

- The engagement findings, recommendations, and conclusions.
- Management’s action plans to address the findings.
- The feasibility of recommendations and/or action plans.
- The timing to address each finding.
- The owner responsible for the action.

Not sure what it means when it's stated that the closing communication must include discussion of the feasibility of recommendations and/or action plans. Does this mean there must be an auditor's note, or a section titled "feasibility" pertaining to each corrective action. To date we've just included an auditor's note if we believe the proposed corrective action does not address the recommendation.

Page 86, "To ensure communication is effective, a variety of methods should be used: formal and informal, written and oral. Engagement communications may occur through scheduled meetings, presentations, emails and other documents, and informal discussions. Requirements for the quality and content of engagement communications are typically established by the chief audit executive in alignment with the expectations of senior management and the board and documented in internal audit methodologies. (See also Standard 11.2 Effective Communication.)"

Shouldn't the quality and content of engagement communication be in alignment with expectations approved by the agency head (Board) rather than expectations of senior management (auditee)? This is probably another situation where the use of the term senior management does not translate well in the public sector. The expectations of senior management may be taken into consideration but in the end just consist of input into the process with the decision being made by the chief audit executive who is given the discretion to implement the policy at their discretion. The agency head is informed of the process so they make adjustments if they wish.

Page 86 "Another common initial communication is the opening conference or entrance meeting, which generally occurs after the risk assessment has been completed and internal auditors have established the initial engagement objectives and scope.

This is too prescriptive about the flow of the process which varies by audit shop. For many internal audit shops, the opening conference is the kickoff meeting. It is utilized to help the auditors learn the process and requirements. Going into the meeting there is only a general audit scope in mind. The full scope and objectives of the engagement have not yet been established until near the end of the Preliminary Survey Phase of the audit. The only time we would have more of an idea of these items at the opening conference would be if this audit engagement had been conducted before. The risk assessment occurs as part of the final process after all information has been gathered towards the end of the Preliminary Survey process, in order to make a proper assessment. Then the Audit Program is arrived at from the results of consideration of all of the Preliminary Survey work including the Opening Conference, Review of procedures, laws and rules, creation of a System Narrative and a verification of its accuracy with the auditee and a formal fraud risk meeting. The end result of all of this work is the creation of the agreed upon audit program. This is consistent with the practice of Internal Audit in that the specific scope, objectives and steps are developed as a direct result of the completion of the Preliminary Survey process.

Page 86, "The required closing communication (also called an "exit conference") is a planned, structured opportunity for internal auditors, the management of the activity under review, and other relevant staff to validate and finalize the engagement findings, recommendations, and conclusions before a final communication is issued. The closing communication also provides an opportunity for management and internal auditors to discuss and potentially resolve any differences or disagreements about findings, recommendations, and/or conclusions. While the

goal is to reach agreement, when that is not the case, this standard requires the inclusion of the viewpoints of both management and internal auditors in the final engagement communication.”

This is confusing, the closing communication is actually our final report. In addition, an exit conference is only held at either the request of the auditee or the Office of Internal Audit. If all sides are comfortable that everything has been vetted and there is no reason for a final discussion, the exit conference can and often is waived.

Ethics

Organizational Expectations Page 11 The following phrase seems to imply it is a mandate to review Ethics every year. “The Internal Audit plan should include assessments of the organization’s ethics-related risks to determine whether existing policies, processes, and other controls adequately and effectively address these risks.”

We agree that the Chief Audit Executive should be aware of the policies concerning ethics and ensure they meet the needs of the entity. However, in most cases the Chief Audit Executive is already familiar with the organization’s risks and related policies so a formal assessment would not necessarily be needed every year. If the environment changed or processes changed, then there would be a need for a new assessment.

Quality

Page 43 and 44 overall

The Chief Audit Executive is charged with executing the internal audit program. In the case of government that the head of the agency is the board, they only care if there are any issues that need resolved they don’t need a briefing on the internal quality assessment. To have a formal annual internal quality assessment is overkill anyway. What is needed is an on-going quality system that includes such things as a checklist that is marked as executed throughout the audit process to ensure completeness and consistency and clear written procedures that require a review be conducted by management of the executed procedures and related workpapers. If this is followed, there is no need for any additional assessment. Resources are extremely limited, so we don’t need to dictate a process that adds little value. We recommend instead that the standards address a requirement for the Chief Audit Executive to have a documented process for assuring quality.

In regard to performance objectives, in Illinois state government the chief audit executive usually receives an annual evaluation and within that are the stated goals. Having said that, this is attempting to dictate something that is beyond the control of the Chief Audit Executive. If the head of the agency does not conduct an evaluation of the chief audit executive, the Chief Audit Executive does not have the power or authority to make them.

Page 45 “The board must determine the scope and frequency of the external quality assessment.”

This does not translate well to a public sector entity in which the board is the head of the agency.

In the public sector, at least in Illinois, the head of the agency will not decide the scope and frequency of the external quality assessment. That is left up to the chief audit executive and then conveyed to the head of the agency. The point of this does not translate well into the public sector for agencies where the board is the head of the agency.

Page 46 “Completion of external quality assessment training recognized by the IIA. At least one person on the team with an active Certified Internal Auditor designation.”

This is too prescriptive. In Illinois, the QAR is overseen by the Illinois State Internal Audit Advisory Board. It is to be conducted by a peer at another State agency, usually through a self-assessment with validation. The board has its own training course the person must take. It is hard enough to get QAR volunteers and a person does not have to be a CIA to conduct a good QAR. It is better to require a minimum number of years of internal audit experience such as at least 5 years. A QAR is a good learning opportunity for staff, that person may not be a CIA. This is too restrictive and will cause significant problems with obtaining qualified persons to conduct a QAR.

Page 46 “The requirement for an external quality assessment may be met periodically through a self-assessment with independent validation. However, a self-assessment with independent validation does not fully replace the requirement for the internal audit function to conduct external quality assessments. The self-assessment may be alternated with the external quality assurance once every ten years.”

In the public sector, there are not funds available at most agencies to pay for a QAR. That is why a self-assessment with independent validation is an excellent solution and there should be no restriction on the number of times this method can be used. This requirement will make it difficult for public sector compliance and is unnecessary. The self-assessment with independent validation seems to be working very well. If this restriction is implemented, it will result in non-compliance with the Standards.

Page 46 “Onsite validation . . .

The validator does not need to be onsite to accomplish their work. This is too restrictive and should be removed. We are surprised given today’s society and practices with the acceptance of remote work that this statement was even included. Having this restriction will make it more difficult to get someone to agree to perform the assessment.

Page 47 “In addition to the required qualifications and independence criteria outlined in the Standards, it is preferred practice that the leader of the external quality assessment team holds an active Certified Internal Auditor designation.”

It is appropriate to encourage internal auditors to become Certified Internal Auditors, however, it is not appropriate to state a preference that the lead be a Certified Internal Auditor. There is already a shortage of people willing to conduct a QAR. Experience is the most important requirement. Having this restriction will make it more difficult to get staff to agree to perform the assessment. This statement does not belong in the standards and could look to outsiders as self-serving.

Internal Quality Assessment Page 76 “Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices to evaluate conformance with all elements of the Standards.”

This is unnecessary and overly burdensome. If you have a good quality system in place, you do not need to assess this annually. Going through such a process annually adds very little value. What is important is that the chief audit executive ensure they have quality assurance processes in place such as detailed and complete written procedures, checklists that demonstrate the work was performed in accordance with those procedures, and adequate oversight and review of workpapers by management.

Page 76 “Communication with the board at least annually about the results of the internal assessments.”

There should not be a mandate for a periodic internal assessment. However, if this remains a requirement, if there are issues identified, those should be communicated to the agency head, otherwise the agency head would not want or need to be involved. A policy should be required to be developed between the Chief Audit Executive and the agency head not dictated by a standard. The standard should say there needs to be a written policy covering this process.

Page 76 “Internal assessments must be documented and included in the evaluation conducted by an independent third party as part of the organization’s external quality assessment.”

This does not mention self-assessment with independent validation. Would it apply to that as well? Again, the Standard should require the Chief Audit Executive to ensure there is quality assurance in place not an annual internal assessment.

Coordination and Reliance

Page 60 “The chief audit executive must coordinate with internal and external providers of assurance services and consider relying upon their work. Coordination of services minimizes duplication of efforts, highlights gaps in coverage of key risks, and enhances the overall value added by all providers.”

This requirement does not translate well to the public sector. In the public sector, the external audit of the agency is the responsibility of an external party beyond the direct control of the chief audit executive, usually the responsibility of an Auditor General or similar function. There is no means to coordinate and avoid duplication and in fact the expectation is there is some duplication of effort in practice. Although a great concept and workable in the private sector, this is unfortunately not the case in the public sector in Illinois.

Resourcing the Internal Audit Function

3.1 Page 19 “Maintain an inventory of internal auditors’ competencies to be utilized when assigning work, identifying training needs and recruiting internal auditors to fill open positions.”

We believe this oversteps the Chief Audit Executive’s discretion in ensuring auditors assigned to a project are competent. It is not necessary for a chief audit executive to maintain a formal inventory if they are familiar with the capabilities of their staff, which they should be.

Positional Independence and Impairments

Page 17 “If the chief audit executive or other internal auditors are asked to assume roles or responsibilities beyond internal auditing, the Chief Audit Executive should speak with senior management and the board about the reporting relationships, responsibilities, and expectations related to the role. During such a discussion, the chief audit executive should emphasize the IIA standards related to objectivity, the potential impairments to objectivity that the proposed role and responsibilities may pose, and the safeguards necessary to mitigate the impairments. (See also Standard 6.1 Internal Audit Mandate; 7.2 Chief Audit Executive Roles, Responsibilities, and Qualifications; Standard 7.3 Safeguarding Independence; and Standard 9.3 Internal Audit Charter.)”

If internal auditors are allowed to perform roles outside of internal auditing, doesn’t it effectively shield those functions from an independent internal audit? At a minimum, wouldn’t the chief audit executive need to document if other internal auditors could be independent and audit the function or externally contract for an audit of that area?

Performance

Performance Measurement Page 79, “The chief audit executive must develop objectives to evaluate the internal audit function’s performance. The chief audit executive must consider the input and expectations of senior management and the board when developing the performance objectives. The chief audit executive is responsible for ensuring that the internal audit function achieves its performance objectives.

Again, the use of the term senior management does not translate well in the public sector as that is the management of the areas we are auditing. This would be subject only to the input of the agency head (Board).

Page 79 “The chief audit executive must develop a performance measurement methodology that includes performance criteria and measures to assess progress towards achieving the function’s performance objectives. When assessing the internal audit function’s performance, the chief audit executive must solicit feedback from senior management and the board.”

This is too prescriptive and too far into the weeds on how the chief audit executive, in conjunction with the agency head, implements the program and is evaluated on this performance. This entire section should be removed. If not removed, then it should only require that an agreed upon process should be stated between the head of the agency or board and the chief audit executive. Also, in order to maintain independence, you would solicit feedback from the agency head but not management typically.

Page 80, “The internal audit function’s performance measures should include operational and strategic outcomes. Achievement of the internal audit plan should not be the sole measure of success.”

What this should entail is between the chief audit executive and the agency head (Board). A primary measure of success is the achievement of the audit plan.

Page 80, “Return on investment”

Return on investment as a performance measure presumes all aspects of internal audit can be accurately measured monetarily but many are not. For example, internal audit discovery of a regulatory violation where a fine or penalty is not known or readily estimated until completion of the adjudication process. Identification of a control weakness or non-compliance with a law or requirement may not have a monetary impact. Again, this is too prescriptive and what is to be used is a decision arrived at between the chief audit executive and the agency head (Board). This should not be dictated in a standard.

Page, 80, “Once key effectiveness and efficiency measurements and targets have been identified, the chief audit executive should establish a monitoring process and a method of communicating to stakeholders (for example, format, timing, and metrics). The internal audit function should obtain feedback from key stakeholders on audit effectiveness and make adjustments where needed.”

This is too prescriptive how this is done and the process for obtaining stakeholder feedback is between the chief audit executive and the agency head (Board). It should not be dictated by the standards.

Public Sector Comments

Building Relationships and Communicating with Stakeholders Page 68 “Internal auditors should consider the public at large to be a direct stakeholder of the organizations. To serve the public, the internal audit function may consider input from the public, such as users of services including utilities, public transit systems, and parks and recreation facilities.”

This is not really viable in the public sector. Internal Audit is a constructive assessment of the internal function for the value of management. Because of its purpose of providing constructive analysis for management, in our state Internal Audit work is not public and therefore public reflection and input would be difficult to get, as well as apply.

Communicating Results 70 “The chief audit executive must seek the advice of legal counsel and/or senior management before releasing final communications to parties outside the organization, unless otherwise mandated or restricted by law.”

At least in the state of Illinois, this falls under the authority of the chief audit executive. Our Internal Audit reports are not available to the public and are exempt from the Freedom of Information Act. Therefore, they are only provided to the regulatory or oversight bodies we work

with or the Executive Inspector General upon request or a subpoena. There is no need to seek advice or approval from Chief Counsel or senior management. This is too restrictive and should instead focus on making sure there is a policy in place regarding the release of this information to outside parties. The point is how this is handled varies by the environment and is therefore addressed in the procedures implemented by the chief audit executive based upon their environment.

Page 72 “Often, internal audit functions in the public sector are required to present internal audit results at public meetings.”

This is too broad a statement regarding a public sector entity. This appears to apply more to a county or local government. In our state, internal audit reports are never discussed in a public meeting. This should not say “often” but instead refer to some public bodies may.

We appreciate the opportunity to review the exposure draft, and we respectfully ask for your consideration of these comments

Sincerely,

Nikki Lanier

Nikki Lanier, Chair of the Illinois State Internal Audit Advisory Board
On behalf of the State Internal Audit Advisory Board