SIAAB Guidance #03
Internal Audit Committees in State of Illinois Government
Adopted March 11, 2014

Revised In Accordance with 2017 Standards – Effective January 1, 2017
Revised In Accordance with 2024 Standards – Effective January 7, 2025

**** Note: The State Internal Audit Advisory Board (SIAAB) requires Illinois Internal Auditors to follow the Global Internal Audit Standards (GIAS) of the Institute of Internal Auditors (IIA). The structure of GIAS consists of 5 Domains, 15 Principles and 52 Standards. Any references made to GIAS will begin with the Domain, then Principle followed by a (.) and then the Standard. For example, Domain II, Principle 3, Standard 4 would be referenced as GIASII 3.4.*

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.

The terms "Chief Internal Auditor," "Chief Audit Executive," "Director Internal Audit" or similar positions 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 GIAS and ensuring the quality of the performance of internal audit services. This document uses those terms interchangeably. 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 refers to this position as Chief Internal Auditor. The Chief Internal Auditor or others reporting to the Chief Internal Auditor, will have the appropriate professional certifications and qualifications.

SIAAB Interpretation

Audit Committees in the private sector are formed from a public company's Board of Directors. The Chief Executive Officer reports to the Board of Directors and is accountable to them. Because the Board of Directors is independent from the operations of the company, they can provide independent oversight of the company. Likewise, an audit committee formed as a subset of that same Board of Directors would also be independent from operations and therefore can provide independent oversight of the Internal Audit function. However, in State government, a similar independent relationship only exists when a government entity is legally required to have a Board.

A Board or Commission may only be established in Illinois pursuant to the provisions under the Illinois Administrative Procedures Act (5 ILCS 100 Section 1-20) which states, *"'Agency' means each officer, board, commission, and agency created by the Constitution, whether in the executive, legislative, or judicial branch of State government, but other than the circuit court; each officer, department, board, commission, agency, institution, authority, university, and body politic and corporate of the State; each administrative unit or corporate outgrowth of the State government* *that is created by or pursuant to statute, other than units of local government and their officers, school districts, and boards of election commissioners; and each administrative unit or corporate outgrowth of the above and as may be created by executive order of the Governor. In accordance with the Illinois Administrative Procedures Act (5 ILCS 100 Section 1-25), "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."*

Unless an audit committee has been established by law, executive order, or other enacting language or is authorized by a Board established pursuant to the provisions of Illinois law, they do not exist and are not required within State of Illinois government's operations. There have been discussions at agencies who wish to establish audit committees comprised of members of the senior staff of the agency. The establishment of an audit committee composed of senior staff would affect the Chief Internal Auditor's independence, since under these circumstances; the Chief Internal Auditor would have to audit areas for which the group of people they reported to were directly responsible. This would not be allowed by the Standards or the Fiscal Control and Internal Auditing Act. An independent reporting relationship is required by the Fiscal Control and Internal Auditing Act (FCIAA) (30 ILCS/10), as well as The International Standards for the Professional Practice of Internal Auditing (IIA Standards), published by the Institute of Internal Auditors (IIA).

FCIAA 30 ILCS/10 Section 2002 (b) of FCIAA states in part, *"The chief internal auditor shall report directly to the chief executive officer and shall have direct communications with the chief executive officer and the governing board, if applicable, in the exercise of auditing activities."* Essential to understanding this position is the concept that Internal Audit must be an *independent* function within the organization. *Organizational Independence* can only be achieved within an organization if the Chief Internal Auditor reports directly to the Chief Executive Officer or in the case of a Board, which has been established by Statute to oversee a State agency, the Chief Internal Auditor should have a dual reporting relationship directly to the Chief Executive Officer as well as the Board (See SIAAB Guidance #02 for additional details).

However, if the emphasis of a committee is to ensure the timely implementation of corrective action plans, then that group may be comprised of senior management. Under those circumstances, the name of the group should not be entitled audit committee as that term carries with it a certain understanding within the audit and business community regarding typical responsibilities of such a group. Establishing a separate group of senior management to hear findings and ensure their appropriate implementation could be an effective tool as long as the group could not dictate the validity of a finding but merely enforced the timely implementation of corrective action plans, which is a direct management responsibility. The determination of the validity of a finding should rest solely with the Chief Internal Auditor. Furthermore, if senior management elects to accept the risk of not complying with a finding, the Chief Internal Auditor's obligation is to communicate that decision directly with the Chief Executive Officer of their agency for a final determination.

GIASIII 6.2 states, "The chief audit executive must develop and maintain an internal audit charter that specifies, at a minimum, the internal audit function's.

- Purpose of internal auditing
- Commitment to adhering to the Global Internal Audit Standards

- Mandate, including scope and types of services to be provided, and the board's responsibilities and expectations regarding management's support of the internal audit function. (See also GIASIII 6.1, Internal Audit Mandate).
- Organization position and reporting relationships (See also GIASIII 7.), Organizational Independence.

GIASIII 7.1 states, "The chief audit executive must confirm to the board the organizational independence of the internal audit function at least annually. This includes communicating incidents where independence may have been impaired, and the actions or safeguards employed to address the impairment.

Chief Internal Auditors are required by the Standards to consider input from senior management. during the Internal Audit planning process. However, under no circumstance should an audit committee or any other group comprised of senior management, have the authority to decide what will be included in the Internal Audit Plan. The plan should be created by the Chief Internal Auditor and be submitted directly to the Chief Executive Officer of the agency for discussion and approval. FCIAA 30 ILCS/10 Section 2003(a) states in part, *"The chief executive officer of each designated State agency shall ensure that the internal auditing program includes: (1) A two-year plan, identifying audits scheduled for the pending fiscal year, approved by the chief executive officer before the beginning of the fiscal year."*

GIASIV 11.5 states, "The chief audit executive must communicate unacceptable levels of risk. When the chief audit executive concludes that management has accepted a level of risk that exceeds the organization's risk appetite or risk tolerance, the matter must be discussed with senior management. If the chief audit executive determines that the matter has not been resolved by senior management, the matter must be escalated to the board. It is not the responsibility of the chief audit executive to resolve the risk."

GIASIV 11.5 goes on to state, "The chief audit executive may become aware that management has accepted a risk by reviewing management's response to engagement findings and monitoring management's progress to implement recommendations and action plans. Building relationships and maintaining communication with stakeholders are additional means of remaining apprised of risk management activities including management's acceptance of risk."

GIASV 15.2 states, "Internal audit must confirm that management has implemented internal auditor's recommendations or management's action plans following an established methodology which includes:

- Inquiring about progress on the implementation.
- Performing follow-up assessments using a risk-based approach.
- Updating the status of management's actions in a tracking system."

GIASV 15.2 goes on to state, "The extent of these procedures, must consider the significance of the finding. If management has not progressed in implementing the actions according to the established completion dates, internal auditors must obtain and document an explanation from management and discuss the issue with the chief audit executive. The chief audit executive is responsible for determining whether senior management, by delay or inaction, has accepted a risk that exceeds the risk tolerance. (See also GIASIV 11.5 Communicating Acceptance of Risks."