SIAAB Guidance #04
Internal Audit Plan Development and Amendment in State of Illinois Government
Adopted April 14, 2015

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

An acceptable audit planning process within Illinois State Government must balance the requirements of the Fiscal Control and Internal Auditing Act (FCIAA) and GIAS. FCIAA 30 ILCS/10 Section 2003 (a) (1) requires each Internal Audit program to include a two-year Audit Plan that is approved by the Chief Executive Officer. FCIAA includes a prescriptive approach to internal control and the development of the audit plan in that it actually prescribes certain control activities that must be given consideration.

Specifically, 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." (2) Audits of major systems of internal accounting and administrative control conducted on a periodic basis so that all major systems are reviewed at least once every 2 years. The audits must include testing of:

(A) The obligation, expenditure, receipt, and use of public funds of the State and of funds held in trust to determine whether those activities are in accordance with applicable laws and regulations; and
(B) Grants received or made by the designated State agency to determine that the grants are monitored, administered, and accounted for in accordance with applicable laws and regulations.
3) Reviews of the design of major new electronic data processing systems and major modifications of those systems before their installation to ensure the systems provide for adequate audit trails and accountability.
4) Special audits of operations, procedures, programs, electronic data processing systems, and activities as directed by the chief executive officer or by the governing board, if applicable."
FCIAA 30 ILCS/10 Section 2005 (f) (1), "The Board (SIAAB) shall be responsible for: "promulgating a uniform set of professional standards and a code of ethics based upon 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."

It goes on to state in part that testing must cover the obligation, expenditure, receipt and use of public funds, grants, reviews of the design of major new information technology systems or major modifications to information technology systems and special audits of operations, procedures, programs and information technology systems. FCIAA 30 ILCS/10 3002 references Internal Control Certification Guidelines that were established by the Comptroller in conjunction with the Department of Central Management Services and approved by the Legislative Audit Commission. The guidelines list the control activities utilized by management in executing their program responsibilities. They relate to the auditable units but are not generally the auditable units themselves. The auditable units are the major programs or activities of the agency. To show compliance, most audit shops track the FCIAA control areas against their auditable units. Auditing auditable units generally provides coverage to multiple FCIAA control areas. Providing Internal Audit coverage in this manner allows for compliance with FCIAA as well as the Standards. The Comptroller guidelines list the following control areas that should be given consideration:

- Agency Organization and Management;
- Administrative Support Services;
- Budgeting, Accounting and Reporting;
- Purchasing, Contracting and Leasing;
- Expenditure Control;
- Personnel and Payroll;
- Property, Equipment, and Inventories;
- Revenues and Receivables;
- Petty Cash and Local Funds;
- Grant Administration; and,
- Electronic Data Processing.

FCIAA also provides for a State Internal Audit Advisory Board (SIAAB), whose responsibilities outlined in FCIAA 30 ILCS 10/2005 (f) (1) include, *"promulgating a uniform set of professional standards and a code of ethics (based upon 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."* The standards adopted by SIAAB include those of the IIA, which requires a risk-based Internal Audit Plan.

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.”

GIASIV 9.1 states, “To develop an effective internal audit strategy and plan, the chief audit executive must understand the organization’s governance, risk management, and control processes. To understand governance processes, the chief audit executive must consider how the organization:

- Establishes strategic objectives and makes strategic and operational decisions.
- Oversees risk management and control.
- Promotes an ethical culture.
- Delivers effective performance management and accountability.
- Structures its management and operating functions.
- Communicates risk and control information throughout the organization.
- Coordinates activities and communications among the board, internal and external providers of assurance services, and management.”

GIASIV 9.1 goes on to state, “To understand risk management and control processes, the chief audit executive must consider how the organization identifies and assesses significant risks and selects appropriate control processes. This includes understanding how the organization identifies and manages the following key risk areas:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws and/or regulations.”

GIASIV 9.4 states, “The chief audit executive must create an internal audit plan that supports the achievement of the organization’s objectives. The chief audit executive must base the internal audit plan on a documented assessment of the organization’s strategies, objectives, and risks. This assessment must be informed by input from the board and senior management as well as the chief audit executive’s understanding of the organization’s governance, risk management, and control processes. The assessment must be performed at least annually.”

“The internal audit plan must:

- Consider the internal audit mandate and the full range of agreed-to internal audit services.
- Specify internal audit services that support the evaluation and improvement of the organization’s governance, risk management, and control processes.
- Consider coverage of information technology governance, fraud risk, the effectiveness of the organization’s compliance and ethics programs, and other high-risk areas.
- Identify the necessary human, financial, and technological resources necessary to complete the plan.
- Be dynamic and updated timely in response to changes in the organization’s business, risks, operations, programs, systems, controls, and organizational culture.”

GIASIV 9.4 states, “One approach to preparing the internal audit plan is to organize potentially auditable units within the organization into an audit universe to facilitate the identification and assessment of risks. An audit universe is most useful when it is based on an understanding of the organization’s objectives and strategic initiatives and aligned with the organization’s structure or risk framework. Auditable units may include business units, processes, program, and systems. The chief audit executive can link those organizational units to key risks in preparation for a comprehensive risk assessment and the identification of assurance coverage throughout the organization. This process enables the chief audit executive to prioritize the risks to be evaluated further during internal audit engagements.”

It is SIAAB’s position that in order to develop a risk-based Audit Plan that relates to the activities of the agency, the Internal Audit shop should develop an “audit universe” or “auditable units” for the agency. An “Audit Universe” or “Auditable Units” are internal audit industry terms that refer to a compilation of the activities responsibilities, processes and programs of the various business units, departments and groups of the organization. They are an inventory of the activities or functions of the agency that should be given consideration during the risk assessment process. The audit universe should be created based upon the organizational structure of the agency. This enables Internal Audit to directly link the Internal Audit Plan to the risks based upon the primary owner of the process. The key to maintaining a good schedule of auditable units is to periodically verify that there have been no changes or additions to the auditable units. The auditable units should be updated to reflect any changes in structure, functions or responsibility at least annually. When responsibility changes occur, historic data should be retained to reflect the previous responsibilities and audit coverage that was given. The development of the auditable units for the agency provides many benefits including but not necessarily limited to the following:

- Provides the framework for monitoring the internal control structure of the operational area and provides the foundation for the risk assessment process;
- Allows Internal Audit to communicate with each division or office of the agency in a standardized manner to monitor the internal controls;
- Provides a mechanism for confirming whether all processes have been captured and given consideration;
- Provides a means for monitoring historic audit coverage for all functions and activities;
- Demonstrates compliance with the standards and laws that govern the Internal Audit function; and
- Considered an Internal Audit best practice.

Management input should be one of the factors considered by Internal Audit during the development of the Internal Audit Plan. Meetings with various levels of management should be considered by Internal Audit as part of their risk assessment process to gain a further understanding of the risk and controls of the auditable units. Internal Auditors are the internal control and risk management experts of the agency. The Audit Planning process should be utilized as an opportunity to educate and increase management’s understanding of the internal audit function and the risk assessment process and ensure that there is a common understanding of definitions. Other helpful tools for Internal Audit to consider may be the development of a risk assessment questionnaire as a means of gathering information from the various areas. Factors that may be considered during the risk assessment process include the following:

- Any changes to the auditable units;
- New programs, initiatives or activities;
- Rapid growth or significant increases in funding or expenditures;
- Turnover of key management or key personnel;
- Reviews or audits by a Federal agency;
- Previous internal and external audit findings;
- Fiscal Control & Internal Auditing Act Annual Certification;
- Media exposure;
- Law changes;
- Administrative Rule changes;
- Policy or Procedures changes;
- Complexity of program requirements;
- Information technology that was developed or had major modifications in the last year or
- any that are currently in process or planned;
- Any fraudulent activity, improper conduct, blatant disregard for procedures, suspected or improper use of assets or State resources;
- Any process or programs management would like Internal Audit to review;
- Management ranking of what they consider to be the five most significant areas or processes for which they are responsible.

The Chief Internal Auditor may also utilize the available work conducted by others as a source of information. In order to place reliance on this work, the Chief Internal Auditor must gain assurances about the accuracy of the work. The Annual FCIAA Certification listed above is the process the State has instituted for agency management to provide their assessment of the effectiveness of the existing internal control environment. The Chief Internal Auditor may elect to utilize the questionnaires or other documentation that was gathered by the agency during the preparation of the Annual Certification of Internal Controls. This annual certification of internal controls by management is required pursuant to FCIAA 30 ILCS/10 Section 3001. Additional sources of information are the system narratives created by the Auditor General's Office and the external auditors that work for them. This information is gathered as part of the external audit process in order to provide information regarding the various activities of the agency. They usually include the auditor's assessment of the effectiveness of the internal controls over each process that is discussed within the system narrative.

A related activity that is becoming more common in government is the concept of Enterprise Risk Management (ERM). Some agencies have an established ERM process with a designated Compliance Officer. An ERM process can be used to assist the audit function in identifying key controls and risks of the entity. The Committee of Sponsoring Organizations (COSO) of the Treadway Commission defines ERM as, *"A process, effected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.' Implementation of controls is one common method management can use to manage risk within its risk appetite. Internal auditors audit the key controls and provide assurance on the management of significant risks."*

The Chief Internal Auditor may elect to rely on the work performed as part of the ERM process if they obtain assurances as to the accuracy of the work. The Internal Audit Plan is prepared by the Chief Internal Auditor and in accordance with FCIAA it must be approved by the Chief Executive Office of the agency. Specifically, FCIAA 30 ILCS 10/2003 (a) (1) states in part,

"(a) 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."

This is consistent with GIAS which requires the Internal Audit Plan to be approved by the Board. As discussed in SIAAB Guidance #02, Board within Illinois State Government is the Chief Executive Officer or Agency Head, see notation at the beginning of this guidance. GIASIV 9.4 states, "The chief audit executive must discuss the internal audit plan, including significant interim changes, with the board and senior management. The plan and significant changes to the plan must be approved by the board."

GIASIV 9.4 goes on to state, "The chief audit executive must review and revise the internal audit plan as necessary and communicate timely to the board and senior management:

- The impact of any resource limitations on internal audit coverage.
- The rationale for not including an assurance engagement in a high-risk area or activity in the plan.
- Conflicting demands for services between major stakeholders, such as high-priority requests based on emerging risks and requests to replace planned assurance engagements with advisory engagements.
- Limitations on scope or restrictions on access to information."

Accordingly, the Chief Internal Auditors should report to the Chief Executive Officer any limitations that may prevent the auditor from completing the audit plan as approved. The manner in which this is reported is left to the discretion of each internal audit activity and their Chief Executive Officer. What is considered "significant" will vary between agencies; however, the key is good, open and timely communication between the Chief Internal Auditor and the Chief Executive Officer.

Internal Audit Plans should take into account the Chief Internal Auditor's best judgment for creating an Audit Plan based upon available information and existing resources. If the Chief Internal Auditor believes there are areas which need to be addressed but can't be due to limited resources, they should convey that information to the Chief Executive Officer.

GIASIII 8.2 states, "The chief audit executive must evaluate whether internal audit resources are sufficient to fulfill the internal audit mandate and achieve the internal audit plan. If not, the chief audit executive must develop a strategy to obtain sufficient resources and inform the board about the impact of insufficient resources and how any resource shortfalls will be addressed."

In addition, throughout the year the Internal Audit shop may experience both decreases as well as increases in staff which will affect the plan. This will also impact the proficiency of the available

Internal Audit resources, which may affect the timing of audits due to the availability of appropriate staff.
GIASII 3.1 states," Internal auditors must possess or obtain the competencies to perform their responsibilities successfully. The required competencies include the knowledge, skills, and abilities suitable for one's job position and responsibilities commensurate with their level of experience. Internal auditors must possess or develop knowledge of The IIA's Global Internal Audit Standards."

In addition, the work of Internal Audit is impacted by the number of issues that are found during the course of an audit. The more issues that are identified, the longer the audit takes to complete. It is sometimes difficult to estimate this unknown, which in some agencies may be significant. This can have a significant impact upon the Internal Audit Plan. It is also important that the Chief Internal Auditor conveys the progress towards achieving the Internal Audit Plan and changes to the plan during periodic meetings with the Chief Executive Officer. The Internal Audit Plan should be a flexible document that may require change as the year progresses. This is because priorities and events change over time, in fact situations often change as soon as they are put into writing. A new program, department realignment or reorganization may occur, unexpected occurrences may change management's needs, and some engagements may need to be shifted to a higher priority status because of increased importance by the Chief Executive Officer or Senior Management.

The Internal Audit Plan should be designed to allow the Chief Internal Auditor the flexibility to manage and apply the Internal Audit resources throughout the year and schedule and prioritize those audits approved in the plan. This allows the Chief Internal Auditor to perform their day-to-day responsibilities in executing the Audit Plan. However, significant changes should be brought to the attention of the Chief Executive Officer and Board, if applicable. The Chief Internal Auditor should also report to the Chief Executive Officer any limitations that may prevent the auditor from completing the audit plan as approved. How these are communicated should be through a process agreed to by the Chief Internal Auditor and the Chief Executive Officer. Significant changes or limitations may be addressed during the periodic meetings held between the Chief Internal Auditor and the Chief Executive Officer. The documentation of the meeting should reflect the significant changes or limitations that were discussed. An Internal Audit Shop may elect to prepare actual amended plans or written amendments to the plan. An Internal Audit shop may elect to communicate those changes by e-mail to the Chief Executive Officer. We believe any method that communicates the understanding of the significant change or limitation is an acceptable method as long as that documentation is maintained by Internal Audit.