

SIAAB Guidance #05

Conforming with FCIAA and Standards in Small Audit Functions in the State of Illinois

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**** 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

This guidance will address, on a high-level basis, key Auditing Standards (AS), and offer optional recommendations to assist small audit functions in conforming with the standards and complying with the Fiscal Control and Internal Auditing Act (FCIAA) (30 ILCS 10).

In April 2011, the Institute of Internal Auditors (IIA) published a practice guide titled Assisting Small Internal Audit Activities in Implementing the International Standards for the Professional Practice of Internal Auditing¹ (Guide). The Guide discusses the challenges faced by small audit functions, rates the level of challenge presented, and proposes remedies. This SIAAB guidance document will address the unique challenges for small audit functions in context of FCIAA.

¹ <https://na.theiia.org/standards-guidance/recommended-guidance/practice-guides/Pages/Practice-Guides.aspx>

The criterion for defining a small audit function varies by entity. For purposes of this guidance document, a *small audit function is one that has a small number of audit staff in comparison to the overall agency headcount, budget size, programs, and mission*. Ultimately, it is the responsibility of each Chief Internal Auditor to determine whether its audit function is small and the level to which this guidance is applicable.

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 Standard 6.1 Internal Audit Mandate.)
- Organizational position and reporting relationships. (See also Standard 7.1 Organizational Independence.)”

GIASIII 6.2 goes on to state, “The chief audit executive must discuss the proposed charter with the board and senior management to confirm that it accurately reflects their understanding and expectations of the internal audit function.”

GIASIII 6.2 further notes that an essential condition for the Board is to, “Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter to enable an effective internal audit function.”

GIASIII 6.2 also states that the Board must “Review the internal audit charter with the chief audit executive to consider changes affecting the organization, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organization. Senior Management must “Communicate with the board and chief audit executive about management’s expectations that should be considered for inclusion in the internal audit charter.”

GIASIII 6.3 states, “The chief audit executive must provide the board and senior management with the information needed to support and promote recognition of the internal audit function throughout the organization.”

GIASIII 6.3 further states that it is essential that the board, “Support the chief audit executive through regular, direct communications. Demonstrate support by: Specifying that the chief audit executive reports to a level within the organization that allows the internal audit function to fulfill the internal audit mandate. Approving the internal audit charter, internal audit plan, budget, and resource plan. Making appropriate inquiries of senior management and the chief audit executive to determine whether any restrictions on the internal audit function’s scope, access, authority, or resources limit the function’s ability to carry out its responsibilities effectively. Meeting periodically with the chief audit executive in sessions without senior management present.”

GIASIII 6.3 goes on to state that Senior Management should, “Work with the board and management throughout the organization to enable the internal audit function’s unrestricted access

to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.”

SIAAB Guidance:

Conformance with the requirements of GIASIII is independent of the size of the audit function and should not present unique challenges for small audit functions. The Chief Internal Auditor should obtain executive endorsement/approval of the audit charter from the chief executive officer, and governing board, as applicable, periodically. FCIAA requires the Chief Internal Auditor prepare a two-year audit plan for chief executive officer approval by the end of each fiscal year [30 ILCS 10/2003(a)(1)].

Specifically, FCIAA 30ILCS 10/2001 Program of internal auditing states:

Each designated State agency as defined in Section 1003(a) shall maintain a full-time program of internal auditing. In the event that a designated State agency is merged, abolished, reorganized, or renamed, the successor State agency shall also be a designated State agency. [30 ILCS 10/2001(a)]

Sec. 2002. Qualifications of chief internal auditor.

(a) The chief executive officer of each designated State agency shall appoint a chief internal auditor with a bachelor's degree, who is either:

- (1) a certified internal auditor by examination or a certified public accountant and who has at least 4 years of progressively responsible professional auditing experience; or
- (2) an auditor with at least 5 years of progressively responsible professional auditing experience.

(b) 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. All chief internal auditors and all full-time members of an internal audit staff shall be free of all operational duties. [30 ILCS 10/2002]

Sec. 2003. Internal auditing program requirements.

(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. By September 30 of each year the chief internal auditor shall submit to the chief executive officer a written report detailing how the audit plan for that year was carried out, the significant findings, and the extent to which recommended changes were implemented.
- (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.

(b) Each chief internal auditor shall have, in addition to all other powers or duties authorized by law, required by professional ethics or standards, or assigned consistent with this Act, the powers necessary to carry out the duties required by this Act.

In order to ensure compliance with the requirements of FICAA and GISA, SIAAB recommends obtaining charter endorsement/approval in conjunction with annual approval of the audit plan. This will ensure the Internal Audit Charter is approved annually.

Independence and Objectivity

GIASIII 6.3 states, “The chief audit executive must coordinate the internal audit function’s board communications with senior management to support the board’s ability to fulfill its requirements.” It is essential that the Board, “Champion the internal audit function to enable it to fulfill the Purpose of Internal Auditing and pursue its strategy and objectives.” Lastly, Senior Management should, “Support recognition of the internal audit function throughout the organization.”

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.”

GIASIII 7.1 goes on to state, “The chief audit executive must document in the internal audit charter the reporting relationships and organizational positioning of the internal audit function, as determined by the board. (See also GIASIII 6.2 Internal Audit Charter.) The chief audit executive must discuss with the board and senior management any current or proposed roles and responsibilities that have the potential to impair the internal audit function’s independence, either in fact or appearance. The chief audit executive must advise the board and senior management of the types of safeguards to manage actual, potential, or perceived impairments.”

GIASIII 7.1 further states, “When the chief audit executive has one or more ongoing roles beyond internal auditing, the responsibilities, nature of work, and established safeguards must be documented in the internal audit charter. If those areas of responsibility are subject to internal auditing, alternative processes to obtain assurance must be established, such as contracting with an objective, competent external assurance provider that reports independently to the board.”

GIASIII 7.1 states, “When the chief audit executive’s nonaudit responsibilities are temporary, assurance for those areas must be provided by an independent third party during the temporary

assignment and for the subsequent 12 months. Also, the chief audit executive must establish a plan to transition those responsibilities to management.”

GIASIII 7.1 also states, “If the governing structure does not support organizational independence, the chief audit executive must document the characteristics of the governing structure limiting independence and any safeguards that may be employed to achieve this principle.”

GIASIII 7.1 also states that it is essential that the Board, “Establish a direct reporting relationship with the chief audit executive and the internal audit function to enable the internal audit function to fulfill its mandate. Authorize the appointment and removal of the chief audit executive. Provide input to senior management to support the performance evaluation and remuneration of the chief audit executive. Provide the chief audit executive with opportunities to discuss significant and sensitive matters with the board, including meetings without senior management present. Require that the chief audit executive be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the board when necessary. Acknowledge the actual or potential impairments to the internal audit function’s independence when approving roles or responsibilities for the chief audit executive that are beyond the scope of internal auditing. Engage with senior management and the chief audit executive to establish appropriate safeguards if chief audit executive roles and responsibilities impair or appear to impair the internal audit function’s independence. Engage with senior management to ensure that the internal audit function is free from interference when determining its scope, performing internal audit engagements, and communicating results.”

GIASIII 7.1 further states that Senior Management should, “Position the internal audit function at a level within the organization that enables it to perform its services and responsibilities without interference, as directed by the board. Recognize the chief audit executive’s direct reporting relationship with the board. Engage with the board and the chief audit executive to understand any potential impairments to the internal audit function’s independence caused by nonaudit roles or other circumstances and support the implementation of appropriate safeguards to manage such impairments. Provide input to the board on the appointment and removal of the chief audit executive. Solicit input from the board on the performance evaluation and remuneration of the chief audit executive.”

SIAAB Guidance:

The internal audit function must always perform its duties with objectivity and independence. The importance of the independence and objectivity should be discussed and reinforced, and real or perceived impairment should be disclosed to the chief executive officer and appropriate parties, at both the agency and engagement level.

GIASII 2.3 states, “If objectivity is impaired in fact or appearance, the details of the impairment must be disclosed promptly to the appropriate parties. 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 the management of the activity under review, the board, and/or senior management and determine the appropriate actions to resolve the situation. If an impairment that affects the reliability or perceived reliability of the engagement findings, recommendations, and/or conclusions is discovered after an engagement has been completed, the chief audit executive must discuss the concern with the management of the activity under review, the board, senior management, and/ or other affected stakeholders and determine the appropriate actions to resolve the situation. (See also GIASIV 11.4 Errors and Omissions.) If the objectivity of the chief audit executive is impaired in fact or appearance, the chief audit executive must disclose the impairment to the board. (See also GIASIII 7.1 Organizational Independence.)

SIAAB recommends disclosing impairments in writing on at least an annual basis, in conjunction with the two-year planning process, and more frequently as warranted when impairments arise. The Chief Internal Auditor should exercise due care in ensuring that impairments are not perceived as excuses. When issuing a report where independence could not be satisfactorily achieved, the Chief Internal Auditor has an obligation to disclose the impairment and its related impact.

For small audit functions in the State of Illinois, independence is enhanced by the FCIAA mandate for the Chief Internal Auditor to report directly to the chief executive officer, and to have direct communications with the governing board, as applicable, and by the FCIAA prohibition on internal audit performing operational activities. Chief Internal Auditors should consider SIAAB Guidance 02: Internal Audit Independence - Interaction with Agency Head, Senior Staff and Placement within the Organizational Structure.

Proficiency and Due Professional Care

GIASII 3 states, “Demonstrating competency requires developing and applying the knowledge, skills, and abilities to provide internal audit services.”

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. Each internal auditor is responsible for continually developing and applying the competencies necessary to fulfill their professional responsibilities.”

“Additionally, the chief audit executive must ensure that the internal audit function collectively possesses the competencies to perform the internal audit services described in the internal audit charter or must obtain the necessary competencies. (See also GIASIII 7.2 Chief Audit Executive Qualifications and GIASIV 10.2 Human Resources Management.)”

“Internal auditors should develop competencies related to:

- Communication and collaboration.
- Governance, risk management, and control processes.
- Business functions, such as financial management and information technology.
- Pervasive risks, such as fraud.
- Tools and techniques for gathering, analyzing, and evaluating data.

- The risks and potential impacts of various economic, environmental, legal, political, and social conditions.
- Laws, regulations, and practices relevant to the organization, sector, and industry.
- Trends and emerging issues relevant to the organization and internal auditing.
- Supervision and leadership”.

“To develop and demonstrate competencies, internal auditors may: Obtain appropriate professional credentials, such as the Certified Internal Auditor® designation and other certifications and credentials.”

“To ensure the internal audit function collectively possesses the competencies to perform the internal audit services, the chief audit executive should:

- Consider contracting with an independent, external service provider when the internal audit function collectively does not possess the competencies to perform requested services.”

GIASII 4 states, “Internal auditors apply due professional care in planning and performing internal audit services. Due professional care requires planning and performing internal audit services with the diligence, judgment, and skepticism possessed by prudent and competent internal auditors. When exercising due professional care, internal auditors perform in the best interests of those receiving internal audit services but are not expected to be infallible. Internal auditors must exercise due professional care by assessing the nature, circumstances, and requirements of the services to be provided, including:

- Relative complexity, materiality, or significance of risks to the activity under review.
- Adequacy and effectiveness of governance, risk management, and control processes.”
- Probability of significant errors, fraud, noncompliance, and other risks that might affect objectives, operations, or resources.”
- Cost relative to potential benefits of the internal audit services to be performed.
- Use of appropriate techniques, tools, and technology.”
- The organization’s strategy and objectives.
- The interests of those for whom internal audit services are provided and the interests of other stakeholders.”

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“Internal auditors must exercise due professional care by assessing the nature, circumstances, and requirements of the services to be provided, including Cost relative to potential benefits of the internal audit services to be performed.”

GIASIV 10.2 states, “The chief audit executive must strive to ensure that human resources are appropriate, sufficient, and effectively deployed to achieve the approved internal audit plan. Appropriate refers to the mix of knowledge, skills, and abilities; sufficient refers to the quantity of resources; and effective deployment refers to assigning resources in a way that optimizes the achievement of the internal audit plan.”

GIASV 13.2 states, “To develop an adequate understanding, internal auditors must identify and gather reliable, relevant, and sufficient information regarding: The organization’s strategies, objectives, and risks relevant to the activity under review.”

SIAAB Guidance:

Small internal audit functions are often faced with limited resources and may not have the budget to invest in adequate training or hire personnel (including third-party specialists) necessary to do the work.

In order for a small audit function to have adequate *collective proficiency*, Chief Internal Auditors should, as permissible under hiring rules and agreements, seek staff auditors with complementary skills. Further, small audit functions have an increased need for auditors with sufficient experience to function with limited supervision. The level of independence and supervision auditors receive when performing functions should be commensurate with their experience and the complexity of the audit. Due professional care can still be achieved when utilizing less experienced staff by ensuring the appropriate level of supervision and oversight. The Chief Internal Auditor should seek guidance from peers, utilize reference materials (books, audit programs, internal control questionnaires, templates, etc.), and leverage training that is provided free of cost or at low cost (Web-based training, local SIAAB and IIA training, etc.).

Quality Assurance/Improvement Program

GIASIII 8.3 states, “The chief audit executive must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program includes two types of assessments:

External assessments. (See also GIASIII 8.4 External Quality Assessment.)

Internal assessments. (See also GIASIV 12.1 Internal Quality Assessment.)

At least annually, the chief audit executive must communicate the results of the internal quality assessment to the board and senior management. The results of external quality assessments must be reported when completed. In both cases, such communications include:

The internal audit function’s conformance with the Standards and achievement of performance objectives. If applicable, compliance with laws and/or regulations relevant to internal auditing. If

applicable, plans to address the internal audit function's deficiencies and opportunities for improvement. "

GIASIII 8.3 further states that it is essential for the Board to, "Discuss with the chief audit executive the quality assurance and improvement program, as outlined in Domain IV: Managing the Internal Audit Function. Approve the internal audit function's performance objectives at least annually. (See also GIASIV 12.2 Performance Measurement.) Assess the effectiveness and efficiency of the internal audit function. Such an assessment includes: Reviewing the internal audit function's performance objectives, including its conformance with the Standards, laws, and regulations; ability to meet the internal audit mandate; and progress toward completion of the internal audit plan. Considering the results of the internal audit function's quality assurance and improvement program. Determining the extent to which the internal audit function's performance objectives are being met."

SIAAB Guidance:

Chief Internal Auditors should leverage the resources on SIAAB's Quality Assurance Review (QAR) Program page². Chief Internal Auditors and pertinent audit staff are encouraged to take the free QAR training provided by SIAAB (4 CPE), and small audit functions should also consider utilizing QAR checklists as part of their engagement planning and closeout process to promote reasonable, timely conformance with the Standards. The use of auditing software can also help provide quality assurance as the audit work is maintained in a central location and evidence of the completion and review of the audit objectives and steps is maintained within the software.

Managing the Internal Audit Activity

GIASIV 9.2 states, "The chief audit executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders. An internal audit strategy is a plan of action designed to achieve a long-term or overall objective. The internal audit strategy must include a vision, strategic objectives, and supporting initiatives for the internal audit function. An internal audit strategy helps guide the internal audit function toward the fulfillment of the internal audit mandate. The chief audit executive must review the internal audit strategy with the board and senior management periodically."

SIAAB Guidance:

A significant challenge facing small audit functions in the State of Illinois is balancing the audit function's mandates under FCIAA and other Illinois statutes/rules with the expectations of senior management. The Chief Internal Auditor may have difficulty demonstrating the audit function adds value if management's priorities differ from the audit function's required mission. This disconnect, if unresolved, can worsen the challenge over time as management may not allocate sufficient resources to an audit function it does not view as adding value. Therefore, the internal audit charter should clearly define Internal Audit's mission and be endorsed by the chief executive officer.

² https://siaab.audits.uillinois.edu/QAR_Program/

FCIAA requires the Chief Internal Auditor prepare a two-year audit plan for chief executive officer approval by the end of each fiscal year. While all audit functions should include its mandatory audits on the two-year audit plan, SIAAB encourages small audit functions to emphasize to the chief executive officer the mandatory nature of key items on the two-year audit plan. Resource limitations may result in non-mandatory engagements on the two-year plan being canceled or postponed, and, pursuant to GIASIV 9.4 (Communication and Approval), significant interim changes should be communicated to senior management and the governing board, as applicable.

Chief Internal Auditors should consider SIAAB Guidance 04 – Audit Plan Development and Amendment and consult with their peers. SIAAB recommends small audit functions develop a two-year audit plan that prioritizes the activities required by statute. Managerial directives under FCIAA [30 ILCS 10/2003(a)(4)] should be added, postponed, or canceled based on resources and timing as to not interfere with mandatory engagements. Communication is essential so management does not view audit as having priorities contrary to the priorities of senior management, and so management will understand why prioritizing mandatory activities is necessary to ensure compliance with FCIAA and auditing standards.

Nature of Work

Domain I of the IIA Standards states, “Internal auditing enhances the organization’s:

Successful achievement of its objectives.
Governance, risk management, and control processes.
Decision-making and oversight.
Reputation and credibility with its stakeholders.
Ability to serve the public interest.”

Domain I goes on to state, “Internal auditing strengthens the organization’s ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight. Internal auditing enhances the organization’s: Successful achievement of its objectives. Governance, risk management, and control processes. Decision-making and oversight.”

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.

SIAAB Guidance:

A small internal audit function should use a risk-based audit approach to ensure the depth, frequency, and nature of audit work are properly focused based on resources and risk. 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. SIAAB recommends tracking the control areas documented in the Guidelines against their audits. Most audit engagements provide coverage over multiple control areas, and tracking the coverage promotes compliance with FCIAA as well as the Standards. A good tracking tool is a spreadsheet (or comparable resource) that cross references audit activities with related internal control areas.

The Comptroller guidelines list the following internal control areas that should be given consideration³:

- 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
- Electronic Data Processing / Information Technology

See also SIAAB Guidance 04 – Audit Plan Development and Amendment for more detailed guidance on promoting compliance during the audit planning process. It is especially important for small audit functions to track any audit work planned or performed related to any areas of internal control to demonstrate all major systems of internal control are reviewed during the two-year audit cycle.

Engagement Planning

GIASV 13.2 states, “Internal auditors must develop an understanding of the activity under review to assess the relevant risks. To develop an adequate understanding, internal auditors must identify and gather reliable, relevant, and sufficient information regarding: The organization’s strategies, objectives, and risks relevant to the activity under review. “

GIASV 13.3 states, “Internal auditors must establish and document the objectives and scope for each engagement. The engagement objectives must articulate the purpose of the engagement and describe the specific goals to be achieved, including those mandated by laws and/or regulations. The scope must establish the engagement’s focus and boundaries by specifying the activities, locations, processes, systems, components, time period to be covered in the engagement, and other elements to be reviewed, and be sufficient to achieve the engagement objectives.”

GIASV 13.5 states, “When planning an engagement, internal auditors must identify the types and quantity of resources necessary to achieve the engagement objectives.”

³ <http://www.ioc.state.il.us/index.cfm/resources/sams-manual-procedure-2-internal-controls/>

SIAAB Guidance:

Internal audit functions in the State of Illinois are required to conduct several recurring audits and engagements, typically on an annual or biennial basis. Chief Internal Auditors should consider obtaining or developing checklists and audit plan templates for common audits in order to streamline the process, and such resources should be tailored based on circumstances. Chief Internal Auditors should refer to SIAAB Guidance 04, Internal Audit Plan Development and Amendments in State of Illinois Government.

Further, SIAAB recommends leveraging the following resources:

- The annual internal control certifications required by FCIAA [30 ILCS 10/3003];
- Process narratives and flowcharts prepared by management and agency units;
- Information regarding management's risk tolerances or appetite;
- Historic internal and external audit findings⁴;
- Prior internal audit working papers;
- The agency's strategic plan and budget;
- A review of applicable statutes⁵ and rules⁶ pertaining to the auditable units and programs; and,
- Surveys, questionnaires, templates, etc. (IIA, ISACA, internally prepared, obtained from other State agencies, etc.).
 - The SIAAB website provides a "Resource" section to facilitate the sharing of information between State entities (<https://siaab.audits.uillinois.edu/Resources/>).

The development of work program templates by engagement type will reduce the time needed to complete engagements and will ensure that engagement objectives are appropriately incorporated into the work performed. The Chief Internal Auditor should revisit the templates periodically to ensure relevance and appropriateness in the context of the audit plan, risk, and the current environment. The Chief Internal Auditor should also ensure that sampling methods are sufficient based on the levels of risk and resources. Ideally, the most proficient auditors in the area(s) of testing should be assigned the most complex testwork, where possible.

External Audit Considerations in the Planning Process

GIASIV 9.5 states, "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 providers. When the internal audit function relies on the work of other assurance service providers, the chief audit executive must document the basis for that reliance and is still responsible for the conclusions reached by the internal audit function."

⁴ <http://www.auditor.illinois.gov/Audit-Reports/ABC-List.asp>

⁵ <http://www.ilga.gov/legislation/ilcs/ilcs.asp>

⁶ <http://www.ilga.gov/commission/jcar/admincode/titles.html>

GIASIV 9.5 states, “If unable to achieve an appropriate level of coordination, the chief audit executive must raise any concerns with senior management and, if necessary, the board.”

The time allocated to an internal audit of a function generally allows for a more detailed scope of work than what external auditors are able to provide given their budget limitations and broad scope of work. The purpose of an internal audit is to provide reasonable, though not absolute assurance, that internal controls are appropriate and functioning effectively in regards to a particular function. An internal audit can identify significant control weaknesses if they exist however, it is not within the scope of an internal audit to discover all errors that may exist.

Performing the Engagement

GIASV 14 states, “To implement the engagement work program, internal auditors gather information and perform analyses and evaluations to produce evidence. These steps enable internal auditors to:

- Provide assurance and identify potential findings.
- Determine the causes, effects, and significance of the findings.
- Develop recommendations and/or collaborate with management to develop action plans.
- Develop conclusions.

GIASV 14.1 states, “To perform analyses and evaluations, internal auditors must gather information that is:

Relevant – consistent with engagement objectives, within the scope of the engagement, and contributes to the development of engagement results.

Reliable – factual and current. Internal auditors use professional skepticism to evaluate whether information is reliable. Reliability is strengthened when the information is:

- Obtained directly by an internal auditor or from an independent source.
- Corroborated.
- Gathered from a system with effective governance, risk management, and control processes.

Sufficient – when it enables internal auditors to perform analyses and complete evaluations and can enable a prudent, informed, and competent person to repeat the engagement work program and reach the same conclusions as the internal auditor.

Internal auditors must evaluate whether the information is relevant and reliable and whether it is sufficient such that analyses provide a reasonable basis upon which to formulate potential engagement findings and conclusions. (See also GIASV 14.2 Analyses and Potential Engagement Findings.)

Internal auditors must determine whether to gather additional information for analyses and evaluation when evidence is not relevant, reliable, or sufficient to support engagement findings. If

relevant evidence cannot be obtained, internal auditors must determine whether to identify that as a finding.

SIAAB Guidance:

Small audit functions are faced with an increased workload challenge due to the lack of a sufficient number of auditors with the proficiency and experience necessary to achieve the engagement's objectives. In small audit functions, the Chief Internal Auditor may be performing some engagements in addition to supervising, and there may be insufficient time to develop staff and related supervisory skills. An additional challenge may be that the Chief Internal Auditor is so involved in performing the engagement that it does not receive sufficient independent review.

SIAAB recommends, where possible, assigning staff to testwork based on their proficiency and experience. An auditor's level of independence or supervision should generally be commensurate with the auditor's experience and proficiency in the area of being tested, as well as the risk level of the area. The use of less experienced auditors requires an increase in oversight and supervision.

GIASIV 9.4 states, "The chief audit executive must discuss the internal audit plan, including significant interim changes, with senior management and the board. The plan and significant changes to the plan must be approved by the board. The internal audit plan must: Identify the necessary human, financial, and technological resources necessary to complete the plan.

GIASIV 10.1 states, "The chief audit executive must seek budget approval from the board."

Chief Internal Auditors should consult with peers throughout the State and share resources where appropriate. The SIAAB website provides a "Resource" section to facilitate the sharing of information between State entities (<https://siaab.audits.uillinois.edu/Resources/>).

Communicating Results

GIASIV 11.3 states, "The chief audit executive must communicate the results of internal audit services to the board and senior management periodically and for each engagement as appropriate. The chief audit executive must understand the expectations of the board and senior management regarding the nature and timing of communications. The results of internal audit services can include:

Engagement conclusions.

Themes such as effective practices or root causes.

Conclusions at the level of the business unit or organization."

Engagement Conclusions

GIASIV 11.3 goes on to state, "The chief audit executive must review and approve final engagement communications, which include engagement conclusions, and decide to whom and how they will be disseminated before they are issued. If these duties are delegated to other internal auditors, the chief audit executive retains overall responsibility. The chief audit executive must

seek the advice of legal counsel and/or senior management as required before releasing final communications to parties outside the organization, unless otherwise required or restricted by laws and/or regulations. (See also GIASIV 11.4 Errors and Omissions, GIASIV 11.5 Communicating the Acceptance of Risks, and GIASV 15.1 Final Engagement Communication.)”

Themes

GIASIV 11.3 further states, “The findings and conclusions of multiple engagements, when viewed holistically, may reveal patterns or trends, such as root causes. When the chief audit executive identifies themes related to the organization’s governance, risk management, and control processes, the themes must be communicated timely, along with insights, advice, and/or conclusions, to the board and senior management.”

Conclusions at the Level of the Business Unit or Organization

GIASIV 11.3 also states, “The chief audit executive may be required to make a conclusion at the level of the business unit or organization about the effectiveness of governance, risk management, and/or control processes, due to industry requirements, laws and/or regulations, or the expectations of the board, senior management, and/or other stakeholders. Such a conclusion reflects the professional judgment of the chief audit executive based on multiple engagements and must be supported by relevant, reliable, and sufficient information.

When communicating such a conclusion to the board or senior management, the chief audit executive must include: A summary of the request. The criteria used as a basis for the conclusion, for example a governance framework or risk and control framework. The scope, including limitations and the period to which the conclusion pertains. A summary of the information that supports the conclusion. A disclosure of reliance on the work of other assurance providers, if any.”

SIAAB Guidance:

The use of report templates can streamline the reporting process. Further, SIAAB recommends the reports include information regarding the major systems of internal control reviewed during the engagement [See Domain 1 and GIASIV 9.1].

Auditors should be counseled and/or trained on providing meaningful and concise communications. SIAAB encourages the use of audit-finding templates to promote all required elements of findings are captured, to reduce oversight and supervisory overhead. The five required elements of a finding are:

1. **Condition:** Description of the problem identified (the “*what is*”).
2. **Criteria:** Description of the standard or benchmark not met (the “*what should be*”).
3. **Cause:** The reason the condition deviated from the criteria (the “*why*”).
4. **Significance/Effect:** Description on the risk, impact, and/or potential negative outcome (or opportunity foregone) because of the condition (the “*why it matters*”).
5. **Recommendation:** Suggested corrective action(s) to bring the condition into conformance with the criteria (the “*what should be done about it*”).

Chief Internal Auditors should also refer to GIASIV 11.2, GIASIV 11.4, GIASV 13.1 and GIASV 15.1 Quality of Communications, GIASIV 11.3, GIASV 14.3 and GIASV 15.1 Disseminating Results.

Monitoring Progress

GIASV 15.2 states, “Internal auditors must confirm that management has implemented internal auditors’ 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. Internal auditors must confirm that management has implemented internal auditors’ 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. The extent of these procedures must consider the significance of the finding.”

SIAAB Guidance:

The internal audit procedures for small internal audit functions should document how to prioritize the findings on frequency and depth of follow-up. Because audit resources are scarce, audit follow-up work through actual fieldwork on all open findings is generally not feasible and to do so could restrict the ability of the audit function to provide audit coverage to areas not previously audited. Instead, the Chief Internal Auditor may require management representation that the matter has been addressed prior to expending resources on any further audit work. This is accomplished through periodic requests to auditees for updates to open findings that ask the auditee to provide evidence of the implementation of their corrective action plan. The auditors can review the representations and determine whether the action taken appears to satisfy the completion of the corrective action plan or whether additional information is needed, which may also include actual follow-up work if necessary. It should be made clear to management that although providing sufficient evidence may clear a finding, the only way for Internal Audit to determine with certainty that a Corrective Action Plan was fully implemented is to conduct a subsequent audit. Therefore, should internal audit conduct a subsequent audit of the area, management should understand that internal audit will utilize this information in ascertaining whether the appropriate action indicated was fully implemented and functioning as intended.

The following suggested follow-up strategies are derived from the IIA’s practice guide for small audit functions:

Prioritized Audit Recommendations (Ratings)	Suggested Follow-up Strategy	SIAAB Guidance
High Risk/Priority	Validation by Internal Audit	Internal audit should consider reviewing the remediation plan and validating its results at completion.

Moderate Risk/Priority	Self-assessment, with Subsequent Validation	Internal audit should consider relying on validation by business process owners, and consider validating the remediation plan either at completion or during the subsequent audit.
Low Risk/Priority	Self-assessment	Internal audit should consider relying on validation by business process owners. Internal audit may also consider validation in the subsequent audit.

Internal Audit may consider requesting commitments from management and auditees regarding corrective actions and timeframes for addressing audit findings and use the commitments to schedule follow-up activities. A good productivity tool is a spreadsheet (or comparable resource) that lists open issues, owners, due date, a brief summary of matter, and current status.

FCIAA requires the Chief Internal Auditor report on the status of internal audit findings and the extent of recommendations implemented annually by September 30 [(30 ILCS 10/2003) (a)(1)]. This deadline and reporting requirement should be discussed with key auditees. Awareness that reporting the status of findings to the chief executive officer is required by law may further motivate timely corrective action.

Management's Acceptance of Risk

GIASV 15.2 states, "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 the Acceptance of Risks.)"

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. 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."

SIAAB Guidance:

The Internal Audit Charter for a small audit function may describe the resolution process in cases where management disagrees with internal auditing's recommendation(s) or acceptable levels of risk. The Charter should be endorsed by the chief executive officer. Further, management's acceptance of a level of risk the Chief Internal Auditor deems unacceptable should be communicated to management timely and documented in the Internal Audit Annual Report (due by September 30 of each year, pursuant to FCIAA [30 ILCS 10/2003) (a)(1)]).

Chief Internal Auditors should also consider SIAAB Guidance 02: Internal Audit Independence - Interaction with Agency Head, Senior Staff and Placement within the Organizational Structure.