



# **Internal Audit Organizational Placement and Independence**

# ACKNOWLEDGEMENTS

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## About the Report

This is one of nine reports that were issued by the New York State Internal Control Task Force (ICTF) in the summer of 2006.

The ICTF, led by a Steering Committee, was comprised of six Work Groups coordinated by Task Force Liaisons from the Division of the Budget (DOB), the Office of the State Comptroller (OSC) and the New York State Internal Control Association (NYSICA).

## About the Authors

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The report was written by James Nellegar, Joel Biederman and Michael Abbott.

## Research Groups

The contents of this study were developed by the ICTF from its original research, professional guidance, and literature. It builds upon earlier reports by the New York State Assembly, audit reports by the OSC, and DOB budget bulletins.

## Stakeholder Groups

Stakeholders in this study include State Agencies, Public Authorities, the Division of the Budget, and the Office of the State Comptroller.

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## BACKGROUND

Internal auditors add value by bringing a systematic, disciplined approach to an organization's evaluation and management of risk, making recommendations to improve the internal control structure and promoting corporate governance. To be successful in that role, it is important that the internal audit function be organizationally independent of other business activities, free from interference in establishing the scope of its work and the communication of results.<sup>1</sup>

The objectivity of internal audit staff □ a personal trait □ is closely related to the concept of independence and is fundamental to the success of the internal audit organization. Objectivity allows the auditor to maintain an impartial, unbiased attitude and avoid conflicts of interest. The organizational alignment of the internal activity can affect an auditor's ability to remain objective.

Internal audit independence and objectivity are not only important to an internal audit organization's credibility; they are hallmarks of executive management's commitment to promoting a strong, introspective approach to corporate governance. These values provide a basis that executive managers, audit committees and third parties can rely upon when considering the internal auditor's findings and recommendations.

The importance of auditor independence and objectivity are emphasized throughout the *International Standards for the Professional Practice of Internal Auditing (internal audit standards)*, published by the Institute of Internal Auditors (IIA) and *Generally Accepted Government Auditing Standards (government auditing standards)*,<sup>2,3</sup> published by the United States Government Accountability Office (GAO).

The New York State Assembly ("*Who's Minding the Store*" 1997) and the New York State Office of the State Comptroller (Office of the State Comptroller Report 2003-S-14, "*State Agency Internal Audit Units' Compliance with Internal Control Act*", August 2004) reported a lack of internal auditor independence in State agencies due to the placement of the internal audit activity within the agency and/or the assignment of duties which impaired the internal auditor's ability to remain independent.

In October of 2004 the Division of the Budget (DOB) – in conjunction with the Office of the State Comptroller (OSC) and the New York State Internal Control Association (NYSICA) – created an interagency workgroup to address both the internal audit (IA) compliance issues identified in the Comptroller's report, as well as to provide guidance on the broader internal control (IC) requirements of the Act. The Task Force created six working groups. The Task

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<sup>1</sup> IIA Auditor Practice Advisory 1110.A1.1

<sup>2</sup> Internal Audit Standards 1100 – 1130.C2

<sup>3</sup> Government Audit Standards: 1.24, 3.01 – 3.32

Force assigned the issue of organizational placement and independence of internal audit units to the organization and staffing workgroup (Workgroup).

## **RESULTS IN SUMMARY**

Thirty-four agencies responded to the Task Force survey on internal audit oversight, guidance and reporting. Of the thirty-four responses, thirty were BPRM Item B-350 agencies. While most of those agencies described an organizational structure, assignment of responsibilities and reporting relationship with executive management that are characteristic of an independent internal audit function, some internal audit units continue to have responsibilities that may impair their ability to remain independent of the business processes they may be called upon to audit. We also identified some general issues related to the conduct of the internal audit activity that affect auditor independence.

The Workgroup believes that all but the smallest of agencies can achieve organizational independence. We recommend broadening BPRM Item B-350 and annual internal control certifications to include the independence issues and proposals made in this report; and utilizing the peer review process to evaluate key independence issues on an ongoing basis.

## **OBJECTIVES AND METHODOLOGY**

Our objective was to provide guidance on the organizational placement of the internal audit activity and on duties which are incompatible with the internal auditor's role and need for independence.

To accomplish our objectives, we reviewed applicable laws, budget bulletins and professional guidance. We also surveyed executive branch agencies regarding the organizational placement and independence of the internal audit function. Thirty-three executive branch agencies are required to maintain internal audit units per BPRM Item B-350.

## RESULTS OF REVIEW

### Organizational Independence

The Act, BPRM Item B-350 and professional audit standards consistently emphasize the need for internal audit units to organize in a manner that ensures they can operate independently:

- The Act requires the internal audit director report to the head of the agency.
- Internal audit standards require that the internal auditor report “to a level within the organization that allows the internal audit activity to accomplish its responsibilities.”<sup>4</sup> IIA practice advisories state that, ideally, the internal audit director should be organized under the chief executive and report to the audit committee, board of directors or other governing authority.<sup>5</sup>
- Government auditing standard 3.27 states that a government internal audit organization can be presumed to be free from organizational impairments to independence when reporting internally to management if the head of the audit organization meets all of the following criteria:
  - a. Accountable to the head or deputy head of the government entity;
  - b. Required to report the results of the audit organization’s work to the head or deputy head of the government entity; and
  - c. Located organizationally outside the staff or line management function of the unit under audit.
- BPRM Item B-350 states the internal auditor report “shall report directly to the State Agency Head or their designated executive deputy or equivalent position.”

### Organizational Placement of the Internal Audit Unit

The reporting requirement described in BPRM Item B-350 is consistent with government auditing standards (i.e., allows reporting to the Agency Head or their designated deputy or equivalent position). The Workgroup believes this reporting relationship is appropriate and will help ensure that internal audit units can operate independently. However, BPRM Item B-350 does not address situations where the deputy head of an agency has line or staff responsibilities, as described in government auditing standard 3.27. When the designated deputy has line or staff management responsibilities, the internal auditor should meet directly with the Agency Head, or with the audit committee,<sup>6</sup> on a periodic basis.

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<sup>4</sup> Internal Audit Standard 1110

<sup>5</sup> IIA Auditor Practice Advisory 1110-1

<sup>6</sup> Audit committees are discussed in further detail later in this report.

Of the 34 agencies responding to our survey, most reported an organizational alignment to the executive deputy or higher. However, one agency did describe a reporting relationship with executive management that was two-levels below the agency's chief executive. The agency did not have an audit committee and is covered by BPRM Item B-350.

Government auditing standard 3.32 states that “the audit organization should document the conditions that allow it to be considered free of organizational impairments to independence to report internally....” Each agency should clearly define the organizational placement of an internal audit unit in organization charts that are readily available to all agency employees. In addition, reporting on the organizational alignment of internal audit units, as part of each agency's annual internal control certification, would promote the independence of these units across the long-term. Government standard 3.32 also states that reviewing the conditions that allow internal audit units to be free of organizational impairments should be part of the peer review process.

#### Frequency of Internal Auditor Meetings with Executive Management

Professional standards require periodic meetings between the internal auditor, executive management and the board<sup>7</sup> or audit committee but do not prescribe, specifically, the frequency with which those meeting should take place. The Workgroup believes regular meetings between these two parties are essential to ensure the independence, effectiveness and accountability of the internal audit activity and recommends such meetings be held at least quarterly.

#### Distribution of Internal Audit Reports

The timely distribution of internal audit reports is integral to the independence, effectiveness and credibility of the internal audit organization. Distributing the audit reports to all stakeholders, including executive management, provides reasonable assurance that the agency will take action on the findings and recommendations contained therein. Professional standards address the distribution of internal audit reports:

- Internal audit standard 2440 states that the internal audit director is responsible for communicating the final results of consulting engagements to clients.
- Government auditing standard 8.57 states that “Internal auditors should follow their entity's own arrangements and statutory requirements for distribution. Usually they report to their entity's head or deputy head, who is responsible for distribution of the

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<sup>7</sup> Internal Audit Standard 2060. Most State agencies do not have a board of directors. A board structure is more common in public authorities.

report. Further distribution of reports outside the organization should be made in accordance with applicable laws, rules, regulations, or policy.”

Most of the internal audit units that replied to our survey told us they distribute reports to the Agency Head or deputy head, as well as other key managers and the auditee.

The Workgroup believes there is value in providing State agencies with guidance on the distribution of internal audit reports. The Workgroup recommends the internal audit director be responsible for the distribution of the audit report and provide it to the Agency Head, deputy head, audit committee (see next section of this report), auditee and to the Internal Control Officer (ICO) when it effects the individual’s areas of responsibility.<sup>8</sup> Any further distribution of audit reports should be made only with the knowledge/permission of executive management. The Workgroup recommends this distribution protocol be reflected in BPRM Item B-350.

### Audit Committees

Thirteen of the 34 internal audit units responding to our survey reported that they have an audit committee. Of the thirteen, twelve were BPRM Item B-350 agencies.

While neither internal audit nor government auditing standards require an audit committee, both encourage the development of establishing such an oversight body:

- Government auditing standard 3.30 states that “The audit organization’s independence is enhanced when it also reports regularly to the entity’s independent audit committee and/or the appropriate government oversight body.”
- IIA’s Model Internal Audit Legislation for State Government<sup>9</sup> (IIA Model Legislation) recommends that “An audit committee may be established, if appropriate, to monitor the activities of the organization’s internal and external audit activities....”

In recent years, the importance of audit committees has received increased recognition, particularly in the private sector. A properly constituted internal audit committee enhances the internal auditor’s real and perceived level of independence by providing a direct link to an oversight body that is not part of agency management.

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<sup>8</sup> Further discussion of the relationship between the internal auditor and the internal control officer is presented later in this report.

<sup>9</sup> [http://www.theiia.org/index.cfm?doc\\_id=3976](http://www.theiia.org/index.cfm?doc_id=3976)

Audit committee duties that enhance the independence of the internal auditor include:

- Overseeing financial, compliance, information technology and performance audits;
- Ensuring the agency has taken appropriate actions to identify key business and operational risks and has an appropriate system of internal controls for addressing those risks;
- Reviewing of the annual audit plan and budget for the internal audit activity;
- Assessing how well the internal audit plan addresses key business and operational risks;<sup>10</sup>
- Receiving internal audit reports and follow-up reports;
- Periodically meeting with the Agency Head and assessing whether management has acted appropriately on the findings and recommendations of the report; and
- Ensuring there is adequate follow-up on internal audits.

The audit committee requires a range of competencies to be effective. These areas of expertise may include, but are not limited to: an understanding of the government environment and accountability structure; an understanding of the functions of the organization; and financial, accounting, auditing and management skills. IIA guidance recommends that the audit committee “Include individuals who are *external* (emphasis added)<sup>11</sup> to the organization’s management structure, and who have the program and/or management expertise to perform the review and oversight function effectively.” Eleven of the 13 agencies that told us they had audit committees said those committees were comprised of agency managers.

The Workgroup encourages the formation of audit committees as a means to enhance the independence and effectiveness of internal audit organizations.

### **Compatibility of Other Duties with the Internal Audit Function**

Individual independence entails refraining from duties that are incompatible with the objective appraisal of operations. The Office of the State Comptroller’s Audit Report 2003-S-14, *State*

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<sup>10</sup> It is not the task of an audit committee to substitute for the executive function in the management of the internal audit activity. The audit committee should offer opinions or recommendations on the manner in which such management is conducted.

<sup>11</sup> In agencies that have a management board structure, the audit committee should be a committee, or sub-committee, of the Board. This measure also ensures the audit committee knows and understands the Board’s priorities.

*Agency Internal Audit Units' Compliance with Internal Control Act*, identified 16 agencies whose internal audit units (i.e., internal audit directors) did not have individual independence because of incompatible duties, including 12 whose internal audit director also served as internal control officer (ICO).

Professional standards state that internal auditors should refrain from activities that may impair their independence:

- Internal audit standards and auditor practice advisories<sup>12</sup> state that auditors should refrain from assessing operations for which they either had responsibility or assumed operating responsibilities (e.g., assigned to prepare bank reconciliations) in the last year. Further, auditors should disclose any impairment to independence or objectivity to the appropriate parties.
- Government auditing standard 3.14 states that “audit organizations should not perform management functions or make management decisions” and that assuming these roles creates a situation that impairs the audit organization’s independence, “both in fact and in appearance, to perform audits of that subject matter and may affect the audit organization’s independence to conduct audits of related subject matter.”

Respondents to our survey identified incompatible duties as the most prevalent barrier to internal audit independence. Of the 34 internal audit organizations that responded to our survey, 22 reported that their units have responsibilities that are not directly related to internal audit tasks, including:

- Eleven internal audit units that have responsibilities as the agency’s internal control officer (ICO);
- Eight internal audit units with responsibilities as the agency’s information security officer (ISO); and
- Sixteen internal audit units that have programmatic responsibilities in addition to internal audit duties.

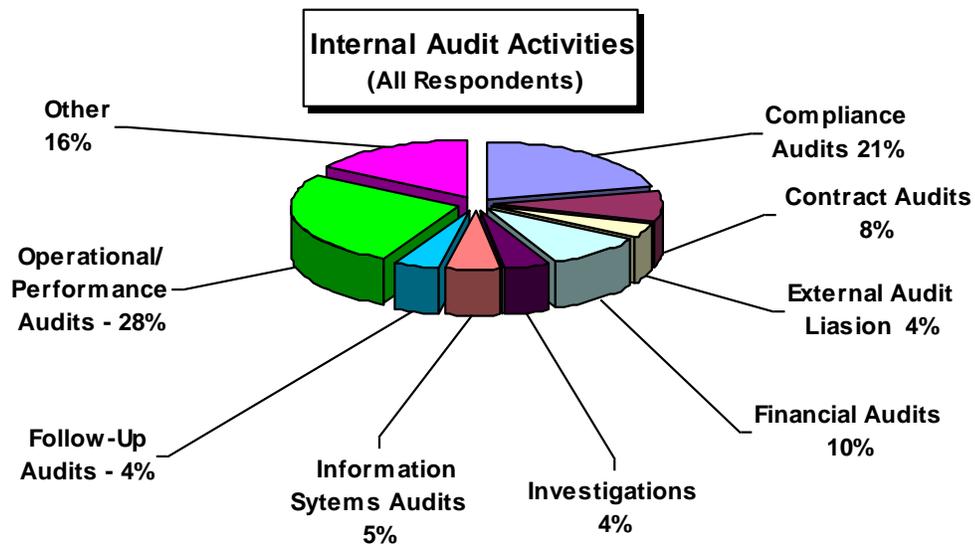
Some agencies may congregate activities that contain an element of internal control (i.e., internal audit, internal controls, information security) — and the amount of time dedicated to these activities can be significant for some internal audit units. On average, the 22 organizations referred to above reported that they expend 20 percent of available staff time on activities unrelated to the

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<sup>12</sup> Internal Audit Standard 1130.A1-A2; IIA Auditor Practice Advisory 1130.A1-1

internal audit function. That average rose to over 25 percent for smaller internal audit organizations (staff size of 1 - 4 people)."

We also asked each audit organization to describe the types of audit engagements and other responsibilities they undertake annually. The chart below reflects averages for all agencies reporting:



The 35 agencies that responded to the direction and staffing portion of the Task Force survey<sup>13</sup> reported that they used most of their resources on operational/performance and compliance audits. On *average*, internal audit organizations expended a significant portion (16 percent) on “other” types of activities (discussed below), including ICO and ISO responsibilities.

#### Internal Control Officer (ICO) Duties

Eleven internal audit units responding to our survey told us they were also responsible for the duties of the ICO.

The Internal Control Act requires that the head of each agency designate an ICO who is responsible for both implementing and reviewing the organization’s internal control efforts. While the Act does not preclude the internal audit director from acting as the ICO, New York State’s Internal Control Standards, issued by the Office of the State Comptroller, expresses the viewpoint that, “*in most instances* (emphasis added), the internal auditor cannot properly perform the role of internal control officer.” This is because the organization’s internal auditor must be independent of the activities that are audited, including the internal control function.

BPRM Item B-350 defines the ICO’s duties as working with appropriate agency personnel to coordinate the internal control activities, and to ensure that the agency’s internal control program

<sup>13</sup> Note: One additional agency responded to the direction and staffing portion of the Task Force survey than the oversight, guidance and reporting section.

meets the requirements established in that policy. Although the ICO is not an operational role as described in internal auditing standard 1130.A1 (i.e., duties directly related to the agency's mission); the ICO role is a management function as defined in government auditing standard 3.14 and will require management decisions as to the overall design and implementation of the internal control system. As such, the role of the internal auditor is generally incompatible with the role of the ICO.

As a practical matter, it is important to recognize that, in smaller agencies, there may be an overlap between the internal audit and internal control functions. In these situations, the internal audit director should limit his/her role to assembling information (i.e., "coordinate the internal control activities of the agency..." per BPRM Item B-350), being careful to avoid decision-making as to the type of controls needed, or an opinion on the quality of controls that have been formally evaluated. If the internal auditor undertakes any internal control responsibilities, it should be clearly communicated, as part of that process, that agency managers are responsible for maintaining an appropriate system of internal controls. Audits of the internal control system and the agency's annual internal control certification should fully disclose the internal auditor's role in the internal control process.

Separation of the internal control and internal audit functions should not preclude a strong working relationship that can create synergies between the two activities. Creating a sense of unanimity between the internal control and internal audit functions will improve the overall internal control culture of an agency. The internal control and internal audit functions reinforce one another when:

- The internal auditor uses internal control reports when planning audits;
- The auditor consistently evaluates and reports on compliance with internal control requirements in audit reports, as part of the auditor's assessment of internal controls;<sup>14</sup>
- The internal control officer reviews internal audit reports on a regular basis to ensure that agency managers incorporate significant risks, findings and recommendations identified in the report into the internal control system; and
- Follow-up audits address whether significant risks, findings and recommendations of the audit have been addressed and incorporated into the agency's internal control system.

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<sup>14</sup> Government Auditing Standard 7.16: "Internal auditing is an important part of internal control. When an assessment of internal control is called for, the work of the internal auditors can be used to help provide reasonable assurance that internal controls are effectively designed and functioning properly...."

Adopting these steps will provide the internal auditor and ICO with continuous feedback on the quality of the internal control system and, therefore, lower the risk (control risk) that the system may be ineffective, or lose its effectiveness over time.

### Information Security Duties

Of the internal audit organizations responding to our survey, eight told us they were also responsible for ISO duties.

In January 1997, the New York State Office for Technology (OFT) issued policy 97-1 to provide agencies with guidance on minimum security policies for protection of assets inclusive of information, computers, and networks. In September 1999, OFT issued technology policy 99-2, stating that it is the responsibility of each agency to appoint an ISO that is *well versed* (emphasis added) in all areas of information security and be able to understand the technology being used at his or her agency.”<sup>15</sup>

The ISO “has overall responsibility for ensuring the implementation, enhancement, monitoring and enforcement of information security policies and standards.”<sup>16</sup> These duties may include the development, or facilitating the development, of an information security policy and facilitating (evaluating) compliance with that policy. As such, the Workgroup believes that the ISO role (as described by CSCIC policy P03-002), *in its totality*, is incompatible with the internal audit role because the internal auditor would be required to perform a management function and make management-level decisions. The Workgroup believes that *limited* ISO duties *are compatible* with the internal audit activity provided the internal audit is qualified to perform those tasks. That is, when the internal auditor’s involvement is limited to:

- Working with other agency employees *to develop* (not to approve) information security policies *provided* the internal auditor does not assume management responsibilities. Such activity is consistent with the definition of internal auditing (i.e., “Internal auditing is an independent, objective assurance and *consulting* activity...”);<sup>17</sup> or
- Evaluating compliance with the security policy (Compliance testing is within the purview of both the internal auditor and the ISO); and
- All parties are aware of the extent of the internal auditor’s role; and

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<sup>15</sup> These policies are now within the domain of the New York State Office of Cyber Security and Critical Infrastructure Coordination (CSCIC).

<sup>16</sup> Page 7 of (CSCIC) Policy P03-002

<sup>17</sup> Definition of internal auditing per the IIA ([http://www.theiaa.org/?doc\\_id=1499](http://www.theiaa.org/?doc_id=1499))

- The internal audit unit, collectively, has the requisite knowledge and experience in technology and information security to meet the intent of OFT policy 99-2<sup>18</sup>. Use of other agency personnel outside of the internal audit unit, or private consultants, is an acceptable means of acquiring this knowledge and experience, provided they are independent of the information technology/security processes being reviewed.

The eight internal audit units that told us they had ISO responsibilities *may* have difficulty in meeting the experience requirements described in OFT policy. While the Task Force did not request access to resumes for each member of the internal audit units in our survey; we did request information regarding professional certifications as *an indicator* of their collective education and experience to serve in that role. Of the eight units with ISO responsibilities, only one reported they had a certified information systems auditor (CISA), certified information security manager (CISM)<sup>19</sup>, or Certified Information Security Professional (CISSP) on staff<sup>20</sup>.

### Programmatic Responsibilities

Sixteen internal audit organizations, 47 percent of respondents, told us that they had programmatic responsibilities in addition to internal audit duties. As stated above, professional standards preclude internal auditors from assuming operating responsibilities or making management decisions. Examples of these additional responsibilities described in the responses to our survey include:

- Routine auditing of agency contracts;
- Employee drug testing;
- Fleet management;
- Personnel investigations; and
- Auditing agency-regulated businesses, including third parties (i.e., not-for-profits) supervised by the agency.

These duties are operating responsibilities that include management-level decision making. In some instances, programmatic responsibilities comprised a major portion of the internal audit unit's activities, indicating that agency may not be maintaining an emphasis on the internal audit

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<sup>18</sup> Internal Attribute Standard 1210 and Government Auditing Standard 3.42 also emphasize the need for the internal unit to, collectively, obtain the knowledge, skills, and other competencies needed to perform its responsibilities. These standards specifically address the need for skills related to information technology.

<sup>19</sup> The CISA and CISM certifications are offered by the Information Systems Audit and Control Association <http://www.isaca.org>

<sup>20</sup> the CISSP is offered by The International Information Systems Security Certification Consortium <https://www.isc2.org>

function. Per the professional standards, the auditor should refrain from these types of activities. Government auditing standards<sup>21</sup> provide examples of non-audit services that are prohibited, stating that audit organization should not:

- Perform management functions or make management decisions.
- Serve as members of an entity's management committee or board of directors.
- Make policy decisions that affect future direction and operation of an entity's programs.
- Supervise entity employees.
- Develop programmatic policy.
- Authorize an entity's transactions, or maintain custody of an entity's assets.
- Maintain or prepare the audited entity's basic accounting records or maintain or take responsibility for basic financial or other records that the audit organization will audit.
- Post transactions (whether coded or not coded) to the entity's financial records or to other records that subsequently provide data to the entity's financial records.
- Process the entity's entire payroll if payroll was a material amount to the subject matter of the audit.

When the internal auditor does assume operational responsibilities, he/she must fully disclose those impairments in the audit documents related to those areas.

### **Other Matters Related to Auditor Independence**

Auditor objectivity is a personal trait that is fundamental to the internal audit organization's actual and perceived level of independence.

#### Independence and Objectivity of the Internal Audit Director

The GAO recognizes the need for internal auditors to be appointed in a manner that will remove them from political pressures as a means to help ensure the auditor's independence and objectivity. Government auditing standard 3.29 states that:

“Auditors need to be sufficiently removed from political pressures to ensure that they can conduct their audits objectively and report their findings, opinions, and conclusions objectively without fear of political repercussions. Whenever

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<sup>21</sup> Government Auditing Standard 3.14, 3.17(f), 3.18(a),(b)

feasible, auditors within internal audit organizations should be under a personnel system in which compensation, training, job tenure, and advancement are based on merit.”

Agency executive managers are, generally, members of the exempt class and are responsible for setting agency policy. Internal audit directors may also be members of the exempt class:

- The Act, as reflected in Article 45 of New York State Executive Law, states: “The position of internal audit director shall be an exempt position....”
- BPRM Item B-350<sup>22</sup> provides for the appointment of the internal audit director to “either an exempt or classified position.”

In an exempt position, the director of the internal audit unit serves at the pleasure of the head of the agency and has no tenure protection. This situation could impact the director's ability to report findings, opinions, and conclusions objectively. To be effective in their role as evaluators of policy, and to comply with government auditing standard 3.29, it is important that all internal auditors, including the internal audit director, be assigned to classified (competitive) service, thereby formalizing their independence from executive management and enhancing their ability to conduct audits in an objective manner.

#### Independence and Objectivity of Internal Audit Staff

Maintenance of auditor objectivity requires a continuing assessment of the auditor’s relationship with the audited entities:

- IIA practice advisory 1130-1 states that the chief audit executive should periodically obtain from the internal audit staff information concerning potential conflicts of interest and bias.
- Government auditing standard 3.08(a) states that audit organizations “should establish policies and procedures that will enable the identification of personal impairments to independence...”

The Workgroup recommends that all internal audit staff members be required to complete independence certifications on an annual basis, consistent with internal audit standard 1130-1 and government auditing standard 3.08(a). Those certifications should identify actual and potential impairments to independence, and require internal auditors to report any new impairment to the internal audit director as they arise. Information on the collection of independence

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<sup>22</sup> See Section V of BPRM Item B-350 - "Internal Audit Responsibilities."

statements should be included in each agency's annual internal control certification. Review of independence statements should be part of the peer review process.

## RECOMMENDATIONS

1. The Division of the Budget should expand BPRM Item B-350 to:
  - a. Require the internal audit director to report the *results* of the unit's work to the head of the agency, and (if applicable) to the audit committee/board of directors (or other governing body).
  - b. Require that the internal audit director report *administratively* to the Agency Head or the designated executive deputy (or equivalent position). If the executive deputy (or equivalent position) individual has line or staff duties, the internal audit director should report directly to the Agency Head.
  - c. Establish a goal of quarterly meetings between the internal auditor and agency executive management/audit committee.
  - d. Require the internal audit director to distribute final reports to the Agency Head/executive deputy, audit committee, auditee and Internal Control Officer. Any further distribution of audit reports should be made only with the knowledge and permission of Agency Head or (if applicable) to the audit committee/board of directors or other governing body that oversees the Internal Audit unit.
  - e. Emphasize the relevance and importance of audit committees.
  - f. Endorse the independence of the internal audit and Internal Control Officer (ICO) functions. Establish limitations on internal control activities where those duties overlap. Require agencies to identify any impairment to the independence of an internal auditor who also serves as the ICO as part of the agency's internal control certification.
  - g. Provide guidance to internal audit functions regarding the assumption of operating responsibilities, performance of management functions or decision-making, or assumption of other monitoring roles (e.g., ICO or Information Security Officer (ISO)).
  - h. Require internal auditors to complete an annual independence statement that identifies actual and potential impairments to independence and requires they notify the internal audit director whenever a new actual or potential impairment arises. Similar direction should be included in any other guidance developed for internal auditing in New York State government.

2. The Division of the Budget should expand the annual internal control certification process to require information that:
  - a. Provides a current agency organizational chart that identifies the placement of the internal audit unit, the individual that has responsibility for overseeing the internal audit activity, and any other organizations or activities that may be under the purview of the internal audit director.
  - b. Describes the existence and composition of an audit committee.
  - c. Identifies any overlap between the duties of internal audit director and other management or monitoring responsibilities.
  - d. Indicates when the last independent review of the agency's internal control certification process was completed and, if applicable, the results of that review.
  - e. Discloses whether internal auditors are required to complete an annual independence statement and, if so, the date those statements were last collected.
  - f. The frequency of meetings held between the internal auditor and agency executive management and the audit committee (if applicable).
  - g. Agency protocols for the distribution of internal audit reports.
  
3. The Office of the State Comptroller should provide guidance related to the concepts in the above recommendations in its Internal Control Standards or any other publications developed for internal controls or internal auditing in New York State government.
  
4. The ICTF should work with the Department of Civil Service to review the classification of Internal Audit positions to ensure all internal auditors are sufficiently removed from political pressures and are under a personnel system in which compensation, training, job tenure, and advancement are based on merit.