

# Internal Audit Director Qualifications

Internal Control Task Force



# 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

The research for this study was conducted by Michael Abbott, Thomas Howe, and James Nellegar and with input from Phillip Maher, Theresa Vottis, William Gritsavage, Bradley Moses, David Koshnick, Joel Biederman, and Kevin O'Donoghue.

The report was written by Michael Abbott and James Nellegar.

## 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.

## For More Information

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## **BACKGROUND**

The public demands that government agencies be held accountable for resources under their control. Internal auditors can assist management of those agencies in ensuring their controls and operations are efficient, effective, economical, and comply with laws and regulations. To carry out this important work, the internal audit unit must be directed by an individual with the necessary knowledge, skills, and other competencies.

Periodically, there have been reports (from both the legislature and the Comptroller's Office) that have noted that some New York State (State) agency internal audit directors do not have the necessary qualifications for the position. Most recently, the Office of the State Comptroller's Audit Report 2003-S-14, State Agency Internal Audit Units' Compliance with Internal Control Act, found that 11 out of 34 agencies did not fully comply with the requirement for the Director of Internal Audit (DIA) to have both internal auditing education and experience.

Without the necessary education and experience, the directors may not have the knowledge, skills, and competencies to accomplish the important responsibilities of the internal audit units.

## **OBJECTIVES AND METHODOLOGY**

The Workgroup's objective was to define both the minimum qualifications, including education and experience requirements, along with preferred qualifications for the position of DIA. To accomplish our objective, we reviewed the New York State Governmental Accountability, Audit and Internal Control Act (Internal Control Act); Budget Policy and Reporting Manual (BPRM Item B-350); the Institute of Internal Auditors' Standards (IIA Standards) and supporting Practice Advisories; the U.S. Government Accountability Office's (GAO) Government Auditing Standards; recommended practices published by the Government Finance Officers Association (GFOA); job specifications issued by the Department of Civil Service; and job announcements for directors of internal audits from various public and private sector organizations. We also surveyed State internal audit units to obtain information on directors of internal audit including experience, education, and certifications.

## **RESULTS IN SUMMARY**

Based on our research and survey results, it is clear that *some* State agencies have not historically placed a strong emphasis on relevant education and experience in making appointments to the position of DIA. In addition, there has been little or no oversight to ensure only qualified individuals are appointed. The role of the Division of Budget (DOB) in approving the appointments is not clearly defined and there are no established minimum qualifications for the position of

DIA. These conditions can have a detrimental effect on the effectiveness of internal audit and could be viewed as not establishing the proper “tone at the top” regarding the importance of internal audit activities. For this reason, minimum education and experience requirements should be established.

## **RESEARCH AND SURVEY RESULTS**

The Workgroup reviewed requirements and guidance, current practices, and survey results to obtain an understanding of the environment. Our review showed there was inconsistency in the education and experience qualifications for the position of director of internal audit across agencies, governments, and the private sector. However, the qualifications most frequently mentioned were experience, college degree, knowledge of auditing standards, and communication skills. For this reason, they are the core of the required qualifications.

### **Requirements and Guidance**

The Internal Control Act and BPRM Item B-350 do not provide specific guidance on the qualifications for the position of DIA. The Internal Control Act states the internal audit director shall “have appropriate internal auditing credentials.... including internal auditing education and experience.” BPRM Item B-350 states the DIA “shall reflect the qualifications of the Standards for the Professional Practice of Internal Auditing.” While the Internal Control Act required internal auditing education, there are very few colleges that provide educational programs in internal auditing. In addition, some individuals conducting performance audits<sup>1</sup> would not meet these requirements even though they would have similar experience as those conducting internal audits.

The IIA Standards do not specifically address the director’s qualifications, but state that the DIA should possess “the knowledge, skills, and other competencies needed to perform their individual responsibilities.”

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<sup>1</sup> Government Auditing Standards, 2003 Revision, Chapter 2, Paragraph 2.09 – “Performance audits encompass a wide variety of objectives, including objectives related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.”

The IIA's *Model Internal Audit Legislation for State Governments* states the chief audit executive shall possess one or more of the following qualifications:

- A bachelor's degree and five<sup>2</sup> years of progressively responsible professional auditing experience as an internal auditor or external auditor, information technology auditor, or any combination thereof; or
- A master's degree and four years of progressively responsible professional auditing experience as an internal auditor, external auditor, information technology, or any combination thereof; or
- A certificate as a Certified Internal Auditor (CIA) or Certified Government Auditing Professional (CGAP) and four years of progressively responsible professional auditing experience as an internal auditor, external auditor, information technology auditor, or any combination thereof. In the absence of a CIA certificate or CGAP certificate, consideration should be given to require a CPA license or CISA credential.

The GAO Audit Standards do not specifically address the DIA's qualifications, but state staff collectively should have the necessary "technical knowledge, skills, and experience." They provide some specificity by requiring audit staff members to have knowledge of GAO Audit Standards, the audited entity's specialized areas or industry, and the subject matter under review; along with oral and written communication skills.

The AICPA has guidelines for hiring the chief audit executive and recommends the individual should have a CPA or CIA credential and have significant experience (10 years or more) in a management role, along with strong technical skills in accounting and auditing. In addition, the preferred qualifications include an advanced business degree such as an MBA.

The GFOA recommends, at a minimum, the head of the internal audit function should possess a college degree and appropriate relevant experience. It also states it is highly desirable that the head of the internal audit function hold some appropriate form of professional certification such as CIA, CPA, or CISA.

The Department of Civil Service has issued a job specification for the internal auditor series, which includes education and experience qualifications for senior, associate, and principal internal auditors. For example, the qualifications for a principal internal auditor are: bachelor's degree with a major in accounting, business or public administration, economics or industrial management, or a closely related field; and five years of progressively responsible experience

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<sup>2</sup> Where specific years of experience are referenced in the IIA qualifications, the number of years is provided as an example and it is up to the organization to specify the amount.

conducting internal audits or program research, review and appraisal, including two years in a supervisory capacity. A master's degree in one of the specified fields may be substituted for one year of the required non-supervisory experience.

## **Current Practices**

Our review of job announcements for the DIA for two State agencies, the federal government, and the private sector shows a wide variation in education and experience requirements. Further, there is a significant variation in the minimum qualifications that have been established.

### State Agencies

The records of the Department of Civil Service show, as of March 31, 2005, 28 of the 34 positions of director of internal audit in the State are in the exempt jurisdictional class and there is no one set of established minimum qualifications for the positions. Rather, each agency is responsible for establishing the qualifications for the position. This point was further confirmed by our survey where 18 out of the 29 agencies responding indicated that they have not developed education and experience requirements for the DIA.

A review of job announcements for DIA positions at two State agencies noted the following.

- One State agency required a bachelor's degree and a minimum of five years of progressively responsible management experience with an organization that monitors, reviews, or audits program or fiscal operations. Two of these years should include supervisory experience. The candidate should have knowledge of governmental operations, an ability to identify management organizational and operating problems and be able to assess their implications, and effective communication skills to articulate audit objectives and findings.
- Another State agency required that the successful candidate exhibit executive management level skill, education, and employment history that meets the criteria for certification by the IIA or a similarly recognized professional organization. Three years of this experience must have been that of a managerial role in an auditing function for a large organization or recognized auditing or accounting firm. The preferred qualifications were for higher level auditing or accounting educational credentials, full certification by a recognized body as noted above, experience focusing on the agency's service sector, and experience in a governmental setting or with governmental relationships.

## Federal Government

We noted the following after reviewing job announcements for the position of assistant inspector general,<sup>3</sup> a job which has some similarities to the DIA:

- One position for an assistant inspector general for audit and evaluation required a bachelor's degree in accounting or business administration and a minimum of five years of professional experience in auditing. A strong knowledge and in-depth experience in auditing standards and practices is required along with one of the following licenses or certifications: Certified Defense Financial Manager, Certified Financial Manager, Certified Government Financial Manager, Certified Internal Auditor, Certified Information Systems Auditor, Certified Management Accountant, Certified Public Accountant. The individuals must also have skills and knowledge related to networking, non-technical writing, leadership, process improvement, GAO audit techniques, and quality control principles.
- Another position of assistant inspector general had mandatory technical and executive core qualifications. The technical qualifications were a thorough knowledge of generally accepted auditing practices and Government Auditing Standards as applied to financial and compliance audits (evaluations and reviews), economy and efficiency audits (evaluations and reviews), and program audits (evaluations and reviews); and demonstrated experience in designing, managing, coordinating, and directing audits or evaluations of highly complex and diverse subjects. The executive core qualifications were in five key areas including leading change, leading people, results driven, business acumen, and building coalitions/communication. Under each of these areas, there was an explanation of the abilities needed. For example, under leading people, the qualification was the ability to design and implement strategies which maximize employee potential and foster high ethical standards in meeting the organization's vision, mission, and goals. The position also required the ability to explain, advocate, and express facts and ideas in a convincing manner, and negotiate with individuals and groups internally and externally. It also involved the ability to develop an expansive professional network with other organizations and to identify the internal and external politics that impact the work of the organization.

It is interesting to note the qualifications for the latter federal position do not mention any educational degree requirements or certification. That may be due, in part, to the fact that the federal government uses program evaluators with various backgrounds, in addition to auditors, to conduct its audits, reviews, and studies. If the qualifications required accounting, auditing, or

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<sup>3</sup> Job announcements for the position of inspector general, as opposed to the assistant inspector general, were not readily available.

business education, it could discriminate against those otherwise qualified individuals. Therefore, we did not specify as a requirement that the bachelor's degree needed to be accounting or a closely related field.

### Private Sector

A review of the qualifications for the position of DIA at several Fortune 500 companies found the requirements also varied. One company required a bachelor's degree in accounting, finance, or a related field; certification such as CPA, CISA, and/or CIA; and 10 to 15 years of relevant experience. Another company required a bachelor's degree in accounting or auditing, knowledge of internal audit practices, and a certification, such as a CPA, CIA, CISA, or certified management accountant (CMA).

### **Survey Results**

The survey results show that 18 out of 29 agencies did not develop education and experience qualifications for the DIA. Without established qualifications, there is a wide variation in the education and experience levels, as well as certifications of directors of internal audit in State agencies.

The results show that:

- 2 out of 29 directors of internal audit do not have a bachelor's degree.
- Of those with a bachelor's degree, only 17 reported being an accounting major.
- 8 individuals reported earning a master's degree.
- The number of years of experience as an internal auditor ranged from none to 33, with 15 being the average number of years.
- 6 out of the 29 directors did not have 5 or more years experience in conducting internal audits.

It is questionable whether an individual with little or no experience as an internal auditor could effectively oversee the responsibilities of the internal audit unit. Using the proposed minimum education and experience qualifications, 8 of the 29, or 27.6 percent, of the directors of internal audit do not have the necessary qualifications.

The survey results show that the number of professional certifications per director ranged from none to four. Collectively, 12 out of the 29 individuals earned one or more certifications such as CPA or CIA. Surprisingly, only three individuals reported being certified as a CIA.

## CONCLUSION

The research and survey results show the need to implement minimal qualifications for the position of DIA and procedures to ensure only qualified individuals are appointed to the position. Internal audit units led by qualified individuals can help ensure accountability is established over the State's resources.

## RECOMMENDATIONS

Based on our research and survey results we recommend the following which, if implemented, will provide a defined set of qualifications for the position of DIA and ensure those qualifications are consistently met.

1. The Division of the Budget should adopt the following minimum and preferred qualifications in BPRM Item B-350 for DIA positions.

### Required Minimum Qualifications

- Bachelor's degree.
- Five years progressively responsible experience conducting or managing one or more of the following: audits, examinations, or program reviews, and, in addition, two years in a supervisory capacity.
- Extensive knowledge of professional audit standards.
- Demonstrated oral and written communication skills.

### Preferred Qualifications – Must Also Meet the Required Minimum Qualifications

- Professional certification such as Certified Internal Auditor (CIA), Certified Public Accountant (CPA), or Certified Information Systems Auditor (CISA).
  - Master's degree in accounting, business, public administration, economics, management, or a closely related field to the agency's service sector.
  - Experience focusing on the activities of the agency's service sector.
  - Extensive knowledge of public sector operations.
2. DOB should clarify its role in approving individuals as Directors of Internal Audit.