



STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax 608-267-4549
etf.wi.gov

CORRESPONDENCE MEMORANDUM

DATE: November 17, 2015
TO: Audit Committee Members
FROM: Yikchau Sze, Director
Office of Internal Audit
SUBJECT: Internal Audit Charter

Staff recommends the Audit Committee approve updates to the Office of Internal Audit Charter.

The current charter, approved by the Audit Committee in December 2013, went through a major revision in 2013 to ensure that the charter reflected important elements contained in the Institute of Internal Auditors International Professional Practices Framework.

I propose one modification to the Charter be made at this time. The modification is to align OIA's mission statement with the mission of internal audit, promulgated by the Institute of Internal Auditors. This can be found on page one of attachment A and B.

For ease of review, I have provided one draft with suggested changes with strike-through and underscoring, while the other draft is a clean copy of the charter with the changes incorporated.

I will be at the Audit Committee meeting to answer any questions.

Attachment: A) Draft Internal Audit Charter with make-up
B) Draft Internal Audit Charter with changes incorporated

Reviewed and approved by Robert J. Conlin, Secretary

Electronically Signed: 11/27/2015

Board	Mtg Date	Item #
AUD	12.10.15	3

**CHARTER
DEPARTMENT OF EMPLOYEE TRUST FUNDS
OFFICE OF INTERNAL AUDIT**

**Adopted: December 12, 2008
Last Revised: December 5, 2013**

Mission

The mission of the Department of Employee Trust Funds Office of Internal Audit (OIA) is to ~~provide independent, objective assurance and consulting services designed to add value to improve ETF's overall operations enhance and protect ETF's value by providing risk-based and objective assurance, advice, and insight. OIA achieves its mission assists ETF in accomplishing its objectives~~ by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes in ETF.

Role

The OIA is created through the administrative authority of the ETF Secretary under Wis. Stat. Chapters 40.03 (2), 15.04, and 15.05. The Board appoints the ETF Secretary under Wis. Stat. § 40.03 (1) (c).

Reporting Relationship

The OIA Director reports functionally and administratively to the ETF Secretary, with an indirect functional reporting relationship to the Audit Committee.

Authority

The OIA, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to all ETF divisions, offices, personnel, activities, confidential and non-confidential data and records, information systems, physical property, and contractors relevant to the performance of engagements.

Professionalism

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

Independence and Objectivity

- The OIA will remain free from interference by any element in ETF, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. However, the OIA will work collaboratively with the Secretary and others within ETF while planning and performing audit functions.
- Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.
- Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- The Director, Office of Internal Audit, will confirm to the Audit Committee, at least annually, the organizational independence of the internal audit function.

Responsibility

The scope of the OIA encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of ETF's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve ETF's stated goals and objectives. The Internal Audit Director will communicate findings and action plans to the Secretary's Office and Audit Committee through periodic updates. This includes:

- Evaluating risk exposure relating to achievement of ETF's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on ETF.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.

- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of ETFs risk management processes.
- Evaluating the quality of performance of external third-party administrator compliance auditors.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for ETF.
- Reporting periodically on OIA's purpose, authority, responsibility, and performance relative to its audit plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Secretary's Office or the Audit Committee.
- Evaluating specific operations at the request of the Secretary's Office, Audit Committee, or management, as appropriate.

Internal Audit Plan

Biennially, the OIA Director will submit to the Secretary's Office and the Audit Committee an internal audit plan for review and approval. The audit plan will be based on appropriate risk-based methodology, considering risks or control concerns identified by management and the Audit Committee, and submit the plan to the Secretary's Office and Audit Committee for review and approval as well as provide periodic updates.

The OIA Director will review and adjust the plan, as necessary, in response to changes in ETF's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to the Secretary's Office and the Audit Committee through periodic activity reports.

Reporting and Monitoring

A written report will be prepared and issued by the OIA Director, or designee, following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Secretary's Office and the Audit Committee.

The internal audit report may include management's response and corrective action plans taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter, i.e., within 10 working days, by management of the audited area should include a time table for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The OIA will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The OIA Director will periodically report to the Secretary's Office and the Audit Committee on the OIA's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Secretary's Office and the Audit Committee.

Quality Assurance and Improvement Program

The OIA will maintain a quality assurance and improvement program that covers all aspects of the OIA activity. The program will include an evaluation of the OIA's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of OIA's activity and identifies opportunities for improvement.

The OIA Director will communicate to the Secretary's Office and the Audit Committee on OIA's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

**CHARTER
DEPARTMENT OF EMPLOYEE TRUST FUNDS
OFFICE OF INTERNAL AUDIT**

Last Revised: December 5, 2013

Mission

The mission of the Department of Employee Trust Funds Office of Internal Audit (OIA) is to enhance and protect ETF's value by providing risk-based and objective assurance, advice, and insight. OIA achieves its mission by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes in ETF.

Role

The OIA is created through the administrative authority of the ETF Secretary under Wis. Stat. Chapters 40.03 (2), 15.04, and 15.05. The Board appoints the ETF Secretary under Wis. Stat. § 40.03 (1) (c).

Reporting Relationship

The OIA Director reports functionally and administratively to the ETF Secretary, with an indirect functional reporting relationship to the Audit Committee.

Authority

The OIA, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to all ETF divisions, offices, personnel, activities, confidential and non-confidential data and records, information systems, physical property, and contractors relevant to the performance of engagements.

Professionalism

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

Independence and Objectivity

- The OIA will remain free from interference by any element in ETF, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. However, the OIA will work collaboratively with the Secretary and others within ETF while planning and performing audit functions.
- Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.
- Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- The Director, Office of Internal Audit, will confirm to the Audit Committee, at least annually, the organizational independence of the internal audit function.

Responsibility

The scope of the OIA encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of ETF's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve ETF's stated goals and objectives. The Internal Audit Director will communicate findings and action plans to the Secretary's Office and Audit Committee through periodic updates. This includes:

- Evaluating risk exposure relating to achievement of ETF's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on ETF.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of ETFs risk management processes.
- Evaluating the quality of performance of external third-party administrator compliance auditors.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for ETF.
- Reporting periodically on OIA's purpose, authority, responsibility, and performance relative to its audit plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Secretary's Office or the Audit Committee.
- Evaluating specific operations at the request of the Secretary's Office, Audit Committee, or management, as appropriate.

Internal Audit Plan

Biennially, the OIA Director will submit to the Secretary's Office and the Audit Committee an internal audit plan for review and approval. The audit plan will be based on appropriate risk-based methodology, considering risks or control concerns identified by management and the Audit Committee, and submit the plan to the Secretary's Office and Audit Committee for review and approval as well as provide periodic updates.

The OIA Director will review and adjust the plan, as necessary, in response to changes in ETF's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to the Secretary's Office and the Audit Committee through periodic activity reports.

Reporting and Monitoring

A written report will be prepared and issued by the OIA Director, or designee, following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Secretary's Office and the Audit Committee.

The internal audit report may include management's response and corrective action plans taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter, i.e., within 10 working days, by management of the audited area should include a time table for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The OIA will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The OIA Director will periodically report to the Secretary's Office and the Audit Committee on the OIA's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Secretary's Office and the Audit Committee.

Quality Assurance and Improvement Program

The OIA will maintain a quality assurance and improvement program that covers all aspects of the OIA activity. The program will include an evaluation of the OIA's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of OIA's activity and identifies opportunities for improvement.

The OIA Director will communicate to the Secretary's Office and the Audit Committee on OIA's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.