



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

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**Correspondence Memorandum**

**Date:** August 4, 2017  
**To:** Audit Committee Members  
**From:** Yikchau Sze, Director  
Office of Internal Audit  
**Subject:** Review of Office of Internal Audit Charter

**The proposed changes to the Internal Audit Charter are provided for the Committee's review and discussion. No Board action is required.**

The current Internal Audit Charter was the result of an external quality assessment that was completed in 2013.

As the Office of Internal Audit continues improving and expanding the services it provides to ETF management and the Audit Committee, we find it necessary to update the charter to stay current. Another reason for the charter revision is to better align with the Institute of Internal Auditors' International Professional Practice Framework.

For ease of review, I have included the original charter, the revised charter showing the proposed changes and a clean copy of the charter with the changes.

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

Attachment A: Original Charter; Revised Charter with changes marked  
B: Revised Charter with changes incorporated

Reviewed and approved by Robert J. Conlin, Secretary

Electronically Signed: 9/12/2017

Board	Mtg Date	Item #
AUD	9.21.17	5

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

**Adopted: December 12, 2008**  
**Amended Date: December 5, 2013, Last Revised: December 5<sup>10</sup>,  
2013<sup>2015</sup>**

**Definition and Mission**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Department of Employee Trust Funds (ETF) operations. It helps ETF accomplish its objectives. The mission of the Department of Employee Trust Funds Office of Internal Audit (OIA) is to enhance and protect ETF's values 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.

The mission of the Department of Employee Trust Funds Office of Internal Audit (OIA) is to enhance and protect ETF's values by providing risk-based and objective assurance, advice, and insight.

**Objective and Scope**

**Objectives of Assurance Services**

The objectives of OIA's assurance services are to provide independent assurance to management and the Audit Committee that ETF's assets are safeguarded, operating efficiency is achieved, and that compliance is maintained with prescribed laws, and ETF's policies. The assurance services objectives also include independent assessment of ETF's governance, risk management, and control processes.

**Objectives of Consulting and Advisory Services**

The objectives of OIA's consulting and advisory services, the nature and scope are agreed with management, are to provide assessments and advice for improving ETF's governance, risk management, and control without the OIA assuming management responsibility.

**Scope**

The scope of work of the OIA is to determine whether ETF's framework of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning to ensure:

- Programs are operating within fiduciary standards and are in compliance with laws, regulations, and ETF's policy and procedures.
- Risks within and outside the organization are appropriately identified and managed.
- Programs and processes are consistent with industry best practice where practical.
- Operations, processes, and programs are consistent with established missions, objectives and goals and whether they are being carried out as planned.
- Ethics-related programs and activities are effective.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Resources are acquired economically, used efficiently, and adequately protected.
- Quality service and continuous improvement are fostered in the organization's control process.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.
- Contractors, including third-party administrators, are meeting the objectives of the contracts, while in conformance with applicable laws, regulations, policies, procedures and best practices.

### **Role Authority**

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).

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.

### **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 Standards of Audit Practice**

~~The OIA shall follow the Institute of Internal Auditors' (IIA) Code of Ethics and International Standards for the Professional Practice of Internal Auditing. 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 essential fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance. As appropriate, the OIA will also comply with the applicable standards outlined within:~~

- General Accepted Auditing Standards of the American Institute of Certified Public Accountants
- Governmental Auditing Standards of the Government Accountability Office

### **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:~~  
The OIA is responsible for the following in order to meet the mission, objectives and scope of this Charter:

- Establish Auditing Manual for conducting OIA's activities according to the professional standards.
- Submit a flexible, risk-based, biennial internal audit plan to the Secretary's Office and the Audit Committee for their review and approval.
- Implement the approved audit plan including appropriate plan amendments, and special projects requested by management and the Audit Committee. Performance of the audit plan will be periodically reviewed and reported to the Audit Committee. 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.
- Assess the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of this Charter.
- Prepare written report following the conclusion of each audit assignment and distribute the report as appropriate. Discuss the results of audits and special projects with the Secretary's Office and the Audit Committee.
- Issue periodic report to the Audit Committee summarizing internal audit activities and the status of follow-up relating to prior audit recommendations.

- Report significant risk exposures and control issues, governance issues, and management's acceptance of risks that may be unacceptable to the organization.
- Maintain an effective quality assurance and improvement program to include supervision, training, internal reviews and external assessments. Obtain external assessment at least every five years. Results of the quality assurance and improvement program should be reported to the Audit Committee and the Secretary's Office.
- Provide assistance and coordination of activities with external auditors to minimize duplication and redundancy. Report to the Audit Committee the results of work performed by the external audit firms.
- Assist in the deterrence of fraud by examining and evaluating the adequacy and the effectiveness of the system of internal controls and the administration of the internal fraud hotline.
- Immediately report any known incident of fraud and/or unethical activity to the Audit Committee, in conjunction with the Secretary's Office as appropriate.
- Select, train, develop, and/or retain professional audit staff who collectively have the knowledge, skills, experience, expertise, and professional certifications to meet the requirement of this charter.
- Keep the Audit Committee and management informed of emerging trends and successful practice through training or other forms of communication.
- ~~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.~~



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