



**State of Wisconsin  
Department of Employee Trust Funds**  
Robert J. Conlin  
SECRETARY

Wisconsin Department  
of Employee Trust Funds  
PO Box 7931  
Madison WI 53707-7931  
1-877-533-5020 (toll free)  
Fax 608-267-4549  
[etf.wi.gov](http://etf.wi.gov)

## ***Correspondence Memorandum***

**Date:** November 16, 2018  
**To:** Audit Committee  
**From:** Yikchau Sze, Director  
Office of Internal Audit  
**Subject:** Annual Independence Affirmation and Disclosure

### **Independence Affirmations**

International Standards for the Professional Practice of Internal Auditing (the Standards) require the internal audit activity to be independent, and internal auditors to be objective in performing their work.

The Standards also require that the chief audit executive confirm to the Audit Committee, at least annually, the organizational independence of the internal audit function, as well as conformance with the Standards and Code of Ethics.

To the best of my knowledge in all matters relating to audit work, ETF's internal audit function is free both in fact and appearance from personal, external, or organizational impairments to independence.

The internal auditors of the Office of Internal Audit (OIA) also annually certify their independence and compliance with independence Standards.

### **Quality Assurance and Improvement Program (QAIP) Disclosure**

The Standards also require that the chief audit executive communicate the results of the QAIP to senior management and the board. The QAIP include both internal ongoing monitoring, periodic self-assessment and external assessment, which is required to be completed every five years.

A full external quality assessment, including the assessment on the effectiveness of OIA's internal QAIP, was recently completed by the Institute of Internal Auditors Quality Services, LLC. The results were discussed with senior management and reported to the ETF Board at the September 20, 2018 Board meeting.

Board	Mtg Date	Item #
AUD	12.13.18	6

The table below is a summary on the progress that has been made to address issues raised by the external quality assessment review.

<b>Gaps to Conformance with the Standards</b>		
<b>Recommendation</b>	<b>Action</b>	<b>Status</b>
<p><b>Organizational Independence</b>  Revise ETF policy and OIA Charter to clearly provide the appropriate appearance of organizational independence and objectivity.</p>	<ul style="list-style-type: none"> <li>• Audit Committee Charter will be revised to incorporate detailed suggestions from the IIA Quality Service.</li> <li>• OIA Charter will be revised to reflect changed reporting relationship of Internal Audit Director to the Audit Committee and to the Secretary of ETF.</li> </ul>	<p><b>In progress</b>  The revisions of both Charters have been completed and submitted to the appropriate oversight authorities for approval. In addition, ETF has submitted statutory changes through the 2019-2021 Biennial Budget Request to create the independent Office of Internal Audit at ETF.</p>
<p><b>Continuing Professional Development</b>  Strengthen OIA policies and procedures to manage and monitor staff continuing professional development.</p>	<ul style="list-style-type: none"> <li>• OIA will develop an Administrative Section in the OIA's Internal Audit Manual to include policy and procedures that will address the issue raised by IIA Quality Service.</li> <li>• The Administration Section will also include position descriptions, performance evaluation standards and other administrative matters.</li> </ul>	<p><b>Completed</b></p>
<p><b>Communication and Approval</b>  Revise the biennial planning process to increase the amount of information and data regarding audit resource requirements.</p>	<ul style="list-style-type: none"> <li>• OIA will consult with senior management and the Audit Committee to develop audit frequency guidelines as suggested by the IIA Quality Service. The guidelines will be considered in developing the biennial audit plan.</li> <li>• Future audit plan will include detailed resource estimates at the engagement level.</li> </ul>	<p><b>Open</b></p>

<b>Opportunities for Continuous Improvement</b>		
<b>Recommendation</b>	<b>Action</b>	<b>Status</b>
<p><b>Recognizing Mandatory Guidance in the OIA Charter</b> Revise the OIA Charter to include the definition of Internal Auditing and the Core Principles as part of the mandatory guidance.</p>	<ul style="list-style-type: none"> <li>OIA Charter will be revised to include all the mandatory guidance.</li> <li>The revision will be submitted for the AC approval in the December 2018 AC meeting.</li> </ul>	<b>Completed</b>
<p><b>Planning</b> Consider retaining a consultant to assist OIA in developing more detailed IT elements within the "Audit Universe".</p>	<ul style="list-style-type: none"> <li>OIA will outsource IT related audit services when appropriate.</li> <li>OIA will utilize external IT audit consultant for IT audit scoping and monitoring in the future audit plan years.</li> </ul>	<b>In progress</b> OIA is working with ETF procurement to identify appropriate outsourcing options.
<p><b>Resource Management</b> Consider scoping proposed audits more narrowly, focusing on the key risk elements to reduce the amount of audit staff time budgeted for audit projects</p>	<ul style="list-style-type: none"> <li>In developing the next biennial audit plan, engagement scope will be defined more narrowly to allow a quicker turnaround.</li> </ul>	<b>Open</b>