



**STATE OF WISCONSIN**  
**Department of Employee Trust Funds**  
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## ***Correspondence Memorandum***

**Date:** November 11, 2021  
**To:** Audit Committee  
**From:** Yikchau Sze, Director  
Office of Internal Audit (OIA)  
**Subject:** Annual Review of Internal Audit Charter

**Staff recommends the Audit Committee approve updates to the Internal Audit Charter.**

As required by the Audit Committee (Committee) Charter, the Committee shall review and approve the Internal Audit Charter. The Committee's approval is requested for minor formatting changes and for the following two key updates:

- Footnote was added to *Reporting Relationship* section to document current limitation on the functional reporting relationship the OIA Director has to the Committee.
- Language was added to the *Independence and Objectivity* section to describe how interference would be handled if the situation ever occurred.

Attachment A: Current Internal Audit Charter with tracked changes

Board	Mtg Date	Item #
AUD	12.09.21	7

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

**Adopted: December 12, 2008  
Last Revised: December 9, 2020**

**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 by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, 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 the 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 the OIA's consulting and advisory services are to provide assessments and advice for improving ETF's governance, risk management, and control without the OIA assuming management responsibility. The nature and scope of OIA's consulting and advisory services will be agreed [upon](#) with management.

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.

### **Authority**

The OIA is created through the administrative authority of the ETF Secretary under Wis. Stat. §§ 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 administratively to the ETF Secretary, and functionally to the Audit Committee [of the ETF Board](#).

### **Standards of Audit Practice**

The OIA shall govern itself by adherence to the Institute of Internal Auditors' (IIA) mandatory guidance, which includes the Definition of Internal Auditing, the Code of Ethics, the Core Principles, and International Standards for the Professional Practice of Internal Auditing. This mandatory guidance constitutes 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 independence and objectivity.~~ ~~maintain~~ ~~enact~~ ~~and~~ ~~objectivity.~~ ~~mental attitude.~~ ~~The OIA Director will inform and discuss the implications of any interference with the Audit Committee.~~ 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.

### **Disclosure**

The Director ~~of the~~ Office of Internal Audit, will confirm to the Audit Committee, at least annually, the organizational independence of the internal audit function, the conformance with the Code of Ethics and the IIA Standards, and the results of the Quality Assurance and Improvement Program.

### **Responsibility**

The OIA is responsible for the following in order to meet the mission, objectives and scope of this charter:

- Establish and maintain the Internal 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 a 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 a 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 an external assessment at least every five years. Results of the quality assurance and improvement program will 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.

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<sup>1</sup> [Audit Committee currently does not have statutory authority to determine and approve compensation plan of the OIA Director.](#)