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Correspondence Memorandum

Date: November 11, 2021
To: Audit Committee
From: Yikchau Sze, Director
Office of Internal Audit (OIA)
Subject: Annual Independence Affirmation and Disclosure

This memo is for informational purposes only. No action is required.

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 the chief audit executive to 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, the Department of Employee Trust Fund's (ETF) internal audit function is free both in fact and appearance from personal, external, or organizational impairments to independence.

The internal auditors of the OIA also annually certify their independence and compliance with the Standards.

Quality Assurance and Improvement Program (QAIP) Disclosure

The Standards also require the chief audit executive communicate the results of the QAIP to senior management and the Board. The QAIP includes 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 effectiveness of the internal QAIP, was completed by the Quality Service Institute of Internal Auditors (IIA Quality Service) in May 2018.

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AUD	12.09.21	8

OIA received the opinion of General Conformance and implemented all the recommendations but one raised by the IIA Quality Service. IIA Quality Service recommended ETF create an independent OIA to enhance its organizational independence and objectivity. This recommendation requires statutory changes that ETF has not been able to achieve through the past two biennial budget request cycles. ETF will continue the effort of creating an organizational independent OIA.

In addition to the full external quality assessment, OIA performs ongoing and annual QAIP activities. This includes the following:

- Quality review and sign-off by OIA Director of workpapers completed by OIA staff and the peer review conducted among OIA staff
- Engagement monitoring through post audit surveys
- Annual review of the IIA Standards with any necessary updates to the Internal Audit Manual and internal practice
- Annual review of Internal Audit Charter and Audit Committee Charter