

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

**Adopted: December 12, 2008**

**Last Revised: December 8, 2022**

**Last Reviewed: December 14, 2023**

**Internal Audit Purpose**

Definition

Internal auditing is an independent, objective assurance and **advisory service** designed to add value and improve the Department of Employee Trust Funds (ETF) operations. It helps ETF accomplish its objectives by bringing a systematic, disciplined approach to evaluate the adequacy and improve the effectiveness of governance, risk management, and control processes in ETF.

Mission

The mission of the Office of Internal Audit (OIA) is **to strengthen ETF's ability to deliver quality benefits and protect the integrity of the trust** by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and **foresight.**

Commitment to Adhering to the Global Internal Audit Standards

The OIA will adhere to the mandatory elements of The Institute of Internal Auditor's International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The Internal Audit Director will report annually to the Employee Trust Funds Board Audit Committee (Audit Committee) and ETF senior management regarding the internal audit function's conformance with the Global Internal Audit Standards, which will be assessed through a quality assurance and improvement program.

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

**Mandate**

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.

### Independence, Organizational Position, and Reporting Relationship

The Internal Audit Director reports administratively to the ETF Secretary, and functionally to the Audit Committee<sup>1</sup> of the ETF Board. This positioning provides the organizational authority and status to bring matters directly to ETF's senior management and escalate matters to the Audit Committee, when necessary, without interference and supports the internal auditor's ability to maintain objectivity.

The Internal Audit Director will confirm to the Audit Committee, at least annually, the organizational independence of the internal audit function. The Internal Audit Director will disclose to the Audit Committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

### **Scope and Types of Internal Audit Services**

The scope of internal audit services includes all of ETF's activities, assets, and personnel.

#### Assurance Services

Services through which the OIA performs objective assessments to increase the level of the Audit Committee's and ETF senior management's confidence in ETF's governance, risk management, and control processes over any issue, condition, subject matter, or activity under review when compared to established criteria, which may be agreed upon with management and process owners.

#### Advisory Services, also known as Consulting Services

Services through which OIA provides advice to ETF management without providing assurance or taking on management responsibilities. The nature and scope of advisory services are subject to agreement with ETF management and process owners.

OIA's services may include evaluating whether:

- Programs are operating within fiduciary standards and are in compliance with laws, regulations, and ETF's policy and procedures.
- Risks relating to the achievement of ETF's strategic objectives are appropriately identified and managed.
- The results of operations and programs are consistent with established goals and objectives and are being carried out effectively, efficiently, ethically, and equitably.
- Established processes and systems enable compliance with policies,

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<sup>1</sup> The Audit Committee currently does not have the statutory authority to determine and approve the compensation plan of the Internal Audit Director or the budget for the OIA as required by the Global Internal Audit Standards. However, the Audit Committee may provide input on the OIA budget and the compensation and performance of the Internal Audit Director.

procedures, laws, and regulations that could significantly impact ETF.

- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and adequately protected.
- Contractors, including third-party administrators, are meeting the objectives of the contracts, while in conformance with applicable laws, regulations, policies, procedures, and best practices.

### **Internal Audit Director Role and Responsibilities**

The Internal Audit Director is responsible for the following in order to meet the mission, mandate, and scope of this charter:

#### Ethics and Professionalism

The Internal Audit Director will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior that is inconsistent with the organization's ethical expectations.

#### Objectivity

The Internal Audit Director will ensure that internal auditors:

- Remain free from interference by any element in ETF, including matters of audit selection, scope, procedures, frequency, timing, or report content to maintain necessary independence and objectivity. The Internal Audit Director will inform and discuss the implications of any interference with the Audit Committee. However, the OIA will work collaboratively with ETF senior management while planning and performing the work of the internal audit function.
- 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 an internal auditor's judgment.
- 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.

### Managing the Internal Audit Function

The Internal Audit Director has the responsibility to:

- **At least annually**, develop a risk-based internal audit plan that considers the input of the Audit Committee and ETF senior management. Discuss the plan with the Audit Committee and ETF senior management and submit the plan to the Audit Committee for review and approval.
- Communicate the impact of resource limitations on the internal audit plan to the Audit Committee and ETF senior management.
- Review and adjust the internal audit plan, as necessary, in response to changes in ETF's business, risks, operations, programs, systems, and controls.
- Communicate with the Audit Committee and ETF senior management if there are significant interim changes to the internal audit plan.
- **Develop and implement OIA's strategic plan.**
- Ensure internal audit engagements are performed, documented, and communicated in accordance with **the Global Internal Audit Standards and laws and/or regulations.**
- Ensure follow-up on engagement findings, confirm the implementation of recommendations or action plans, and communicate the results to the Audit Committee and ETF senior management quarterly.
- Ensure the OIA collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements **of the Global Internal Audit Standards and fulfill the internal audit mandate.**
- Identify and consider trends and emerging issues that **could impact ETF** and communicate to the Audit Committee and ETF senior management as appropriate.
- **Consider emerging trends and successful practices in internal auditing.**
- Establish and ensure adherence to the Internal Audit Manual designed to guide the OIA.
- **Ensure adherence to ETF's relevant policies and procedures unless such policies and procedures conflict with the Internal Audit Charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the Audit Committee and ETF senior management.**
- Provide assistance and coordination of activities **from other internal** and external providers of assurance and advisory services to minimize duplication and redundancy **and consider possible reliance on the work performed.** If the Internal

Audit Director cannot achieve an appropriate level of coordination, the issue must be communicated to ETF senior management and if necessary escalated to the Audit Committee. Report to the Audit Committee the results of work performed by the external auditors.

- 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 Chair, in conjunction with the Secretary's Office as appropriate. Through a discussion with the Chair, determine when the other Audit Committee members will be notified.

#### Communication with the Audit Committee and ETF Senior Management

The Internal Audit Director will report annually to the Audit Committee and ETF senior management regarding:

- The internal audit plan and performance relative to the plan.
- The progress and key performance indicators of OIA's strategic plan.
- Internal audit budget/resource requirements.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the OIA's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Audit Committee that could interfere with the achievement of ETF's strategic objectives.
- Management's responses to risk that the OIA determines may be unacceptable or acceptance of a risk that is beyond ETF's risk appetite.

#### Quality Assurance and Improvement Program

The Internal Audit Director will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the OIA's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. If applicable, the assessment will also include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the Internal Audit Director will communicate with the Audit Committee and ETF senior management about the OIA's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside ETF; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.