

INTERNAL AUDIT QUALITY ASSURANCE REVIEW

**Wisconsin Department of Employee Trust Funds
Board Meeting
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Overall Session Objectives

- Provide a brief history of the ETF Internal Audit function
- Provide an overview of the International Professional Practices Framework (IPPF) and the external quality assurance review (QAR) process
- Provide the results of the ETF QAR and the subsequent actions taken by Internal Audit

History of the ETF Audit Function

Internal Audit at ETF

- Initially established in July 1985
- Bob Schaefer served as audit director for over 20 years
- One of the “founding fathers” of the Association of Public Pension Fund Auditors in 1991
- IA combined with the Budget Office from 2006-2008
- 2008 - OIA reestablished as a separate office with John Vincent as audit director

IIA's Governance Definition

The combination of processes and structures
implemented by the board
in order to inform, direct, manage and
monitor the activities of the organization
toward the achievement of its objectives.



Source: “Internal Auditing: A Safety Net for Those at the Top,”
Tone at the Top, IIA, August 2003

Audit Committee Charter

- Issued December 2008 and revised December 2013
- Purpose
- Membership
- Authority
- Meetings
- History

Audit Committee Responsibilities

- Assist the Board in fulfilling fiduciary and oversight duties:
 - financial reporting process
 - the system of internal control
 - monitoring compliance with laws and regulations
 - provide oversight of the Internal Audit function

Audit Committee Responsibilities

- Review and assess the adequacy of the Audit Committee Charter annually
- Review and approve Internal Audit Charter
- Provide policy recommendations for an effective system of internal control
- Review and approve the Biennial Internal Audit Plan and all major changes to the plan, and the OIA's performance relative to the plan
- Review audit findings together with management's response and inform the Board
- Participate in the selection of the OIA Director

IIA's Definition of Internal Auditing

Internal auditing is:

- an independent, objective assurance and consulting activity
- designed to add value and improve an organization's operations.
- It helps an organization accomplish its objectives
- by bringing a systematic, disciplined approach
- to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit Charter

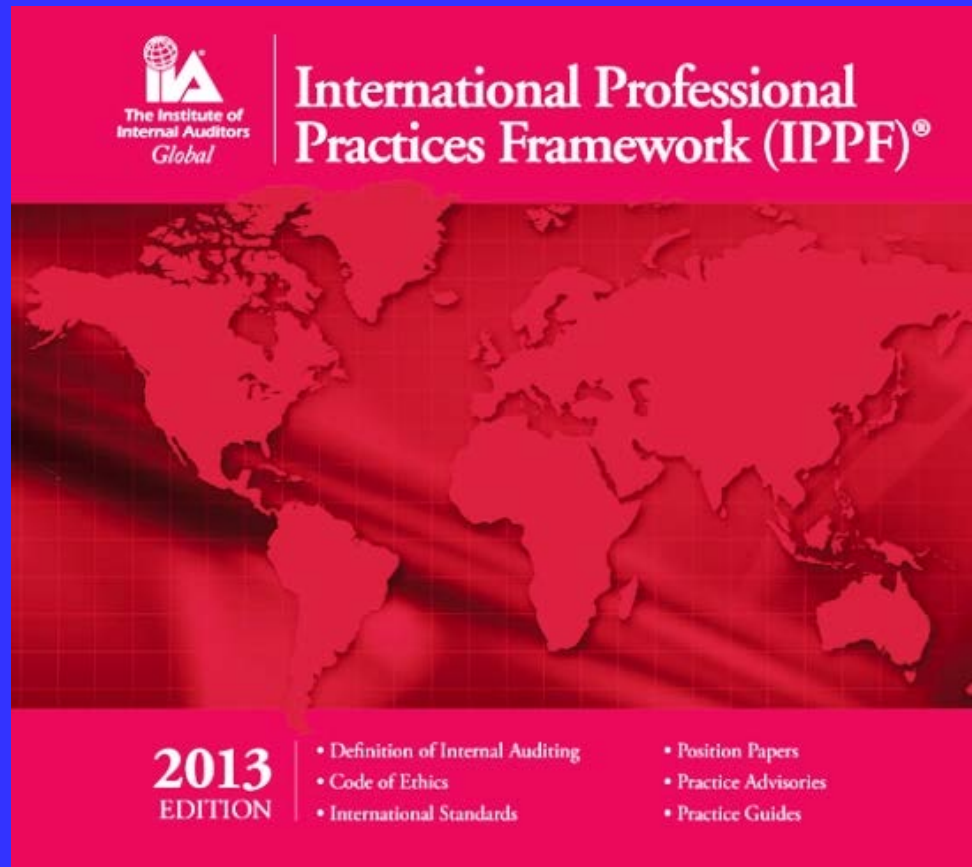
- Issued December 2008 and revised December 2013
- Mission
- Role
- Reporting Relationship
- Authority
- Professionalism
- Independence and Objectivity
- Responsibility

Control Environment Elements

- Integrity and ethical values
- Management's philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and practices
- Competence of personnel

**Institute of Internal Auditors
International Professional Practices
Framework (IPPF)**

IIA Standards



Institute of Internal Auditors International Professional Practices Framework



Signs of a Profession

- Professional Standards
- Code of Ethics
- Continuing Professional Education
- Professional Certification
- Quality Assurance Reviews

Key Components of an External Quality Assurance Review (QAR)

Key Components of External QAR Process

- **Planning & Preparation**

- Background Review and Document Production
- Survey of Business Partners

- **Onsite Work**

- Interviews with Key Stakeholders
- Review of Audit Engagement Work Papers
- Communication, Communication, Communication
- Develop and Finalize Opportunities for Improvement
- Provide Overall Opinion and Draft Report

Key Components of External QAR Process (Continued)

- **Follow-up Actions**

- CAE Prepares Responses and Action Plans
- QAR Report Issued
- Follow-up Actions Completed
- CAE Progress Reports Provided to the ETF Secretary and the Audit Committee

Results of External Quality Assurance Review of ETF Internal Audit

Overall Opinion as to Conformance with Standards

- ▶ Based on the information received and evaluated during this external quality assessment review, it is my overall opinion that the Department of Employee Trust Funds (ETF) Office of Internal Audit (OIA) **partially conforms** with the Institute of Internal Auditors (IIA) Professional Practices Framework including:
 - ▶ the *International Standards for the Professional Practice of Internal Auditing*,
 - ▶ the Definition of Internal Auditing, and
 - ▶ the Code of Ethics.

Conformance Rating Criteria

- *Generally Conforms* -- means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance to the *Standards*.
- ***Partially Conforms*** -- means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the internal audit activity from performing their responsibilities in an acceptable manner.

Conformance Rating Criteria

(Continued)

- *Does Not Conform* -- means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

Commendable Results


- OIA reorganization and reestablishment since December 2008
- OIA provides suggestions and input on proposed policies and procedures
- OIA director and staff serve in an advisory capacity on various ETF committees


QAR Results

Observations with Suggestions

- 13 Observations for Consideration
 - 1 observation for ETF Secretary and Audit Committee
 - 12 observations for the OIA Director
- OIA Developed Action Plans
- Current Status (Completed, In Progress, or Planned)
- Please refer to QAR report and Action Plan matrix

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