

POLICY NUMBER: 1.00.190**EFFECTIVE DATE:** 9/15/16**TITLE:** Internal Audit Charter**SUPERSEDES:** 9/17/15**BOARD ADOPTION:** 9/15/16**APPROVED:** 

INTRODUCTION

The Washington State Investment Board (WSIB) internal audit function is established in RCW 43.88.160(4a). The WSIB Audit Committee has established the internal audit function to provide services that meet the Definition of Internal Auditing established by the Institute of Internal Auditors (IIA).

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.

1. The WSIB internal audit function provides a wide range of quality independent assurance services for the Audit Committee, executive management, and consulting services for management.
 - a. Assurance services provide independent assurance to the Audit Committee and management that WSIB assets are safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws, and Board and management policies. Assurance services include independent assessment of WSIB risk awareness and management, reliability and integrity of the agency's data, and achievement of WSIB goals and objectives.
 - b. Consulting services provide management with assessments and advice for improving processes that will advance WSIB goals and objectives. In particular, consulting services will provide assessments and advice on the front-end of projects so risks may be managed and internal controls may be designed at the beginning of a project.

DUTIES AND RESPONSIBILITIESInternal Audit Scope

2. The internal audit function's scope of work is to determine whether the WSIB's network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:
 - a. Programs are operating within the highest fiduciary standards and are directed toward the requirements defined in the state's constitution, laws and regulations, and WSIB policies and procedures.
 - b. Operations, processes, and programs are consistent with established missions, objectives, and goals and are being carried out as planned.
 - c. Existing policies and procedures are appropriate and updated.
 - d. Risks within and outside of the WSIB are appropriately identified and managed.
 - e. Significant financial, managerial, and operating information is accurate, reliable, and timely.

- f. Contractors are meeting the objectives of the contracts, while in conformance with applicable laws, regulations, policies, procedures, and best practices.
- g. Responsibilities and activities of the Office of the State Auditor or any other external auditors engaged by the WSIB are coordinated with those of internal audit to provide continuity of audit efforts and to avoid duplication of efforts.
- h. Specific operations, processes, or programs are reviewed at the request of the Audit Committee or management.

Internal Audit Authority and Independence

- 4. The head of internal audit is delegated the authority to operate the internal audit function. The Audit Committee reviews the annual internal audit plan presented by internal audit directly to the Committee, and recommends its approval to the Board. Internal audit shall periodically inform the Committee of the status of the internal audit plan and any changes needed, including the impact of any resource limitations. Internal audit is authorized to allocate resources, set project frequencies, select audit subjects, determine scope of work, and apply the techniques necessary to accomplish the audit objectives.
- 5. Internal audit is not authorized to perform operational duties for the WSIB and/or its affiliates and contractors. Internal audit is not authorized to initiate or approve accounting transactions. Internal audit is not authorized to direct the activities of any WSIB employee, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.
- 6. The head of internal audit reports functionally to the Audit Committee and administratively to the Executive Director. The Audit Committee oversees the selection and removal process for the head of internal audit and reviews the Executive Director's performance evaluation, annual compensation, and salary adjustments for the head of internal audit. The head of internal audit supervises and prepares the performance evaluations for other internal audit staff.
- 7. Internal audit should discuss any potential issues regarding impairment of independence and/or conflicts of interest and their mitigation(s) with the Audit Committee as necessary.

Internal Audit Access

- 8. Internal audit is granted authority for full, free, and unrestricted access to all of the WSIB's functions, records, files, information systems, personnel, contractors, physical properties, and any other item relevant to the function, process, or unit under review. All contracts with vendors shall contain the WSIB's standard audit language enabling the WSIB's internal auditors and other auditors and specialists to have access to relevant records and information. All of the employees of the WSIB are required to assist internal audit in fulfilling the audit functions and fiduciary duties.
- 9. Internal audit shall have free and unrestricted access to the Audit Committee Chair, the Audit Committee, the Board Chair, and Board members. Internal audit shall also have free and unrestricted access to the Executive Director, management, all personnel, contractors, and vendors of the WSIB.
- 10. Documents and information given to internal auditors shall be handled in the same prudent and confidential manner as by those employees normally accountable for them.

System of Risk Management and Internal Controls

11. Management is responsible for implementing the system of risk management. Internal audit will aid management by evaluating risk management during each audit and through consulting activities. Internal audit will periodically conduct an enterprise risk assessment with the goal of formulating an audit plan. Information gathered during the enterprise risk assessment may be shared with management.
12. Management is responsible for implementing the system of internal control. Internal audit will aid management by evaluating internal controls during each audit and by periodically evaluating the entire system of internal controls.

Internal Audit Process

13. Internal audit is responsible for the following in order to meet the objectives and scope of this Charter:
 - a. Conduct an annual risk assessment and produce an annual audit plan that will accomplish the objectives and scope of this Charter. This plan will include some unassigned hours in order to provide flexibility for management requests, consulting projects, and provide opportunities for professional training. This plan shall be based, in part, upon risks and control concerns identified by management.
 - b. Implement the annual audit plan as approved, including, as appropriate, any plan amendments, special tasks, or projects requested by management and the Audit Committee.
 - c. Coordinate with staff to finalize recommendations for improvement and identify implementation timelines.
 - d. Perform a periodic comprehensive evaluation of risk management and internal controls.
 - e. Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
 - f. Transmit copies of all audit reports to the Audit Committee.
 - g. Conduct periodic follow-up reviews to evaluate the adequacy of management's actions.
 - h. Issue quarterly reports to the Audit Committee and management summarizing results of audit activities and the status of follow-up activities.
 - i. Provide an annual summary of consulting and advisory activities to the Audit Committee.
 - j. Attend all Audit Committee meetings.
 - k. Obtain a peer review by other internal auditors as required by professional standards, no less frequently than every five (5) years (The Institute of Internal Auditors standard).
 - l. Maintain a quality assurance and improvement program (QAIP) that covers all aspects of the internal audit activity, and communicate the results to the Audit Committee and senior management annually.
 - m. Inform the Audit Committee of emerging trends and successful practices in internal auditing.

- n. Assist in the investigation of significant suspected fraudulent activities within the WSIB and notify the Audit Committee, the Executive Director, and other management, as appropriate, of the results.
- o. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the WSIB at a reasonable overall cost.
- p. Consult with WSIB management, as requested, on potential policy and procedure changes.
- q. Participate in professional audit organizations by attending meetings, joining governing boards, presenting speeches and papers, and networking with other professionals. Network with internal audit staff of other public pension systems to learn and exchange best practices information. Participate in other professional organizations related to the mission of the WSIB.
- r. Act as the primary point of contact for handling all matters related to audits, examinations, investigations, or inquiries by the State Auditor or any other external auditors engaged by the Audit Committee of the WSIB.
- s. Act as contract manager for any firm hired by the Audit Committee to perform audit-related services.

Internal Audit Professional Standards

14. Internal audit shall follow the professional standards of relevant professional organizations. These professional standards include, but are not limited to, the following:
- a. The Institute of Internal Auditors (IIA) mandatory guidance including the Definition of Internal Auditing, Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards).
 - b. Control Objectives for Information Technology and Code of Ethics of the Information Systems Audit and Control Association (ISACA).
 - c. American Institute of Certified Public Accountants (AICPA) Professional Standards and Code of Ethics, as applicable.

POLICY REVIEW:

The Board shall review this policy at least once every three (3) years to ensure that it remains relevant and appropriate.

Board Adopted 4/16/98

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