

POLICY NUMBER: 1.00.190**EFFECTIVE DATE:** 12/12/19**TITLE:** Internal Audit Charter**SUPERSEDES:** 9/15/16**BOARD ADOPTION:** 12/12/19

INTRODUCTION

The Washington State Investment Board (WSIB) internal audit function is established pursuant to RCW 43.88.160(4)(a). 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.

The purpose of the WSIB's internal audit function is to provide independent, objective assurance and consulting services designed to add value and improve the WSIB's operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. It helps the WSIB accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

- Assurance services are designed to independently assess whether internal controls are in place to mitigate risks and safeguard assets, governance processes are effective and efficient, and the WSIB is in compliance with prescribed laws, regulations, and policies
- Consulting services are designed to provide management with assessments and advice for improving governance, risk management, and control processes in a manner that advances WSIB goals and objectives. Consulting services may include counsel, advice, and training.

DUTIES AND RESPONSIBILITIES

Internal Audit Scope

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, are adequate and functioning in a manner that ensures:

- Programs are operating within the highest fiduciary standards.
- Risks related to the achievement of WSIB's strategic objectives are appropriately identified and managed.
- The WSIB is operating within the requirements defined in the state's constitution, laws and regulations, and policies and procedures.
- The results of operations and programs are consistent with established missions, objectives, and goals.
- Established processes and systems enable compliance with laws, regulations, policies, and procedures.
- Existing policies and procedures are appropriate and relevant.
- Significant financial, managerial, and operational information is accurate, reliable, and timely.

- Contractors are meeting the objectives of their contracts in conformance with applicable laws, regulations, policies, procedures, and best practices.

Internal Audit Independence and Authority

The Audit Director reports functionally to the Audit Committee and administratively to the Executive Director. The Executive Director provides day-to-day supervision and conducts the performance evaluation of the Audit Director. The Audit Committee oversees the selection and removal process of the Audit Director, reviews the Audit Director's performance evaluation, and approves the Audit Director's annual compensation and salary adjustments.

The Audit Director will ensure the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. Internal audit will discuss any potential issues regarding impairment of independence and/or conflicts of interest and their mitigation(s) with the appropriate parties and the Audit Committee as necessary.

The Audit Director is delegated the authority to operate the internal audit function to include the following:

- Allocate resources, set project frequencies, select audit subjects, determine scope of work, and apply the techniques necessary to accomplish the audit objectives.
- Engage an external service provider subject to the approval of the Executive Director when additional staffing resources are needed to implement the Board-approved annual internal audit plan.
- Supervise and prepare the performance evaluations for other internal audit staff.

The Audit Committee reviews the annual risk-based internal audit plan presented by the Audit Director 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 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.

Internal Audit Access

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 their audit responsibilities and duties.

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.

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

Management is responsible for developing and implementing the system of risk management to include the framework, practices, and processes. Internal audit will aid management by evaluating risk management during audit and consulting activities.

Management is also responsible for implementing the system of internal controls. 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

In order to meet the objectives and scope of this Charter, Internal Audit has the responsibility to:

1. 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 time for management requests and consulting projects and to provide opportunities for professional training. This plan shall be based, in part, upon risk and control concerns identified by management.
2. Implement the annual audit plan as approved, including, as appropriate, any plan amendments, special tasks, or projects requested by management or the Audit Committee.
3. Coordinate with staff to finalize recommendations for improvement and identify implementation timelines.
4. Transmit copies of all audit reports to the Audit Committee.
5. Conduct periodic follow-up reviews to evaluate the adequacy of management's actions.
6. Issue quarterly reports to the Audit Committee and management summarizing results of audit activities and the status of follow-up activities.
7. Perform a comprehensive periodic evaluation of risk management and internal controls.
8. Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coinciding with their development, implementation, and/or expansion.
9. Consult with WSIB management, as requested, on potential policy and procedure changes.
10. Review specific operations, processes, or programs at the request of the Audit Committee or management.
11. Provide an annual summary of consulting and advisory activities to the Audit Committee.
12. Attend all Audit Committee meetings.
13. Consider the scope of work of external auditors, the State Auditors, and other regulators, as appropriate, for the purpose of providing optimal audit coverage to the WSIB and to avoid duplication of efforts.
14. 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 Board. Ensure all external audit reports are presented to the Audit Committee.

15. Act as contract manager for any firm recommended by the Audit Committee and approved by the Board to perform audit-related services.
16. 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.
17. 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.
18. Obtain an external assessment of the internal audit activity at least once every five (5) years by a qualified, independent assessor or assessment team as required by the Institute of Internal Auditors Standards.
19. Inform the Audit Committee of emerging trends and successful practices in internal auditing.
20. 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 and Washington state public agencies to learn and exchange best practices information. Participate in other professional organizations related to the mission of the WSIB.

Internal Audit Professional Standards

Internal audit shall follow the professional standards of relevant professional organizations. These professional standards include, but are not limited to, the following:

- The Institute of Internal Auditors 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*.
- American Institute of Certified Public Accountants (AICPA) Professional Standards and Code of Ethics, as applicable.
- Control Objectives for Information Technology and Code of Ethics of the Information Systems Audit and Control Association (ISACA), 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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