

POLICY NUMBER: 1.00.190**EFFECTIVE DATE:** 12/12/24**TITLE:** Internal Audit Charter**SUPERSEDES:** 10/18/21**BOARD ADOPTION:** 12/12/24

INTRODUCTION

The Washington State Investment Board (WSIB) internal audit function is established pursuant to RCW 43.88.160(4)(a)(i). The Washington State Office of Financial Management director has determined that the WSIB is required to establish and maintain an internal audit program (State Administrative and Accounting Manual, Chapter 22).

The WSIB Audit Committee has established the internal audit function to provide independent, objective assurance and advisory services designed to add value and improve the WSIB's operations.

The purpose of the internal audit function is to strengthen the WSIB's ability to create, protect, and sustain value by providing the Board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances the WSIB's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Internal Audit helps the WSIB accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

- Assurance services are designed to objectively examine evidence for the purpose of providing an independent assessment of governance, risk management, and control processes for the WSIB. This includes an assessment of 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. Internal auditors may provide limited or reasonable assurance, depending on the nature, timing, and extent of procedures performed.
- Advisory services are intended and 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 without internal audit assuming management responsibilities. Advisory services may include defined scope engagements, counsel, advice, and training.

DUTIES AND RESPONSIBILITIES**Internal Audit Scope**

The scope of internal audit services covers the entire organization, including all WSIB's activities, assets, personnel, and contractors.

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 in an effective and efficient manner.
- 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 Chief Executive Officer (CEO). The CEO provides day-to-day supervision and conducts the performance evaluation and recommends the replacement or dismissal of the Audit Director.

The Audit Committee oversees the selection process, reviews the performance evaluation and provides input (as appropriate), approves the annual compensation and salary adjustments, and approves the replacement or dismissal of the Audit Director.

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 engagement selection, scope, procedures, frequency, timing, communication, and report content. Internal audit will discuss any actual, perceived, or potential issues regarding impairment of independence, objectivity, and/or conflicts of interest and their mitigation(s) with the appropriate parties and the Audit Committee as necessary.

Annually, the Audit Director will confirm to the Audit Committee the organizational independence of the WSIB's internal audit function. The Audit Director will also disclose any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and, if needed, the implications of such interference on the function's effectiveness and ability to fulfill its mandate.

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 CEO 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 will report the

status of the annual internal audit plan and any changes to the Committee quarterly, 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 external to the internal audit function or responsibilities. 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 CEO, 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 may periodically evaluate 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 internal 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 internal audit plan as approved, including, as appropriate, any plan amendments, special tasks, or projects requested by management or the Audit Committee. Review and adjust the annual internal audit plan, as necessary, in response to changes in the Internal Audit unit, as well as the WSIB's businesses, risk, operations, programs, systems, and controls. Consult with the Audit Committee Chair when an internal audit engagement will be added or deferred and report to the Audit Committee at the next regularly scheduled meeting.
3. Conduct and document internal audit engagements in conformance with the Global Internal Audit Standards and applicable laws and regulations.

4. Coordinate with staff to finalize recommendations for improvement and identify implementation timelines.
5. Transmit copies of all audit reports to the Audit Committee.
6. Conduct periodic follow-up reviews to evaluate the adequacy of management's actions taken to address audit recommendations.
7. Report to the Audit Committee and management quarterly summarizing the results of corrective action taken and the status of follow-up activities.
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 assurance and advisory services and 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 results and/or 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 CEO, 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. The program will include performance measures to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The results of the QAIP will include an assessment of the internal audit function's conformance with the Global Internal Audit Standards and action plans to address opportunities for improvement.
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 Global Internal Audit 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 mandatory elements of The Institute of Internal Auditors' Professional Practices Framework, the Global Internal Audit Standards and Topical Requirements
- 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 it remains relevant and appropriate.

Board Adopted 4/16/98
Revised 10/16/03
Revised 2/19/04
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