



RELYING ON THE WORK OF ASSURANCE PROVIDERS

To: Dennis Vanek, Chief of Internal Audit, Bureau of Workers' Compensation (BWC)
From: Jim Kennedy, Chief of Quality Assurance, OBM Office of Internal Audit (OIA)
Date: July 31, 2012
Subject: OIA Review of BWC Internal Audit Operations

The OIA Fiscal Year 2012 Annual Plan indicated that OIA would leverage and rely upon the work of BWC internal auditors for financial processes at BWC. BWC internal auditors completed engagements during fiscal year 2012 which OIA relied upon to discharge its responsibilities.

The Institute of Internal Auditors (IIA) issued guidance in December 2011 titled "Reliance by Internal Audit on Other Assurance Providers" This guidance suggests limited procedures be performed by internal audit (OIA) to determine the other assurance provider (BWC internal auditors) meets the principles for providing reliance. The purpose for this review is not an external quality assessment or a validation on internal audit operations but a basis for reliance upon the work of BWC internal auditors.

The guidance above identified five principles in determining reliance which the OIA Chief of Quality Assurance summarized below based upon his office visit on July 30, 2012:

1. **Purpose:** The assurance provider is clear in purpose and committed to providing assurance on a specific risk area and their work is relevant to internal audit's objectives and scope.

Results: OIA found the BWC internal audit charter to fully describe its purpose in compliance with IIA *Standards*. The charter was approved by the BWC Board of Director's Audit Committee on June 14, 2012. Additionally, BWC internal audit completed a Fiscal Year 2012 Annual Plan that was approved by Board in June 2011.

2. **Independence and Objectivity:** The professional judgment of the assurance provider is impartial, without inappropriate interference from others.

Results: The independence of the BWC internal auditors is clearly described in both the BWC internal audit charter as well as the BWC Board of Director's Audit Committee



charter. The members of the BWC Board of Director's Audit Committee are appointed outside the management of BWC. Additionally, appointment of the BWC Chief of Internal Audit was made with input from the BWC Audit Committee Chair and approved by the BWC Audit Committee on August 25, 2011.

3. **Competence:** The assurance provider is knowledgeable of the risks to the organizational processes, how controls are designed to operate in response to the risks, and what constitutes a weakness or deficiency.

Results: The BWC Internal Audit Annual Report issued October 27, 2011 describes the competence level of the 11 member staff. The BWC internal audit staff averages 14 years of business experience and 11 years of audit experience. 23% of staff members hold advanced degrees, while 77% have earned professional certifications including 7 Certified Public Accountants and 3 Certified Internal Auditors.

4. **Elements of Practice:** The assurance provider has established policies, programs, and procedures and follows them. In execution, assurance work is appropriately planned, supervised, documented, and reviewed.

Results: A sample review of working papers by OIA Chief of Quality Assurance found engagements effectively planned, documented, analyzed, reviewed, and reported. However a current policy manual is being developed but is not in place. In addition, there is not a checklist or crosswalk to determine internal audit work is compliant with current IIA *Standards*.

5. **Communication of Results and Impactful Remediation:** The assurance provider communicates results and ensures management takes timely action.

Results: The BWC Internal Audit Chief provides a monthly discussion to the BWC Board of Director's Audit Committee on final audit results and remediation activity. These monthly meetings are open to the public and attended by OIA representatives.

Based upon the results on our work, OIA determined the BWC internal auditors may be relied upon as an internal assurance provider. We encourage BWC internal audit to finalize their policy manual and communicate with staff as well as utilize a compliance checklist with IIA *Standards*. If you have any questions, please feel free to contact me at 995-9973.