



RELYING ON THE WORK OF ASSURANCE PROVIDERS

To: David Kooser, Internal Audit Chief, Bureau of Workers' Compensation (BWC)

From: Amy Radebaugh, Internal Audit Section Chief, OBM Office of Internal Audit (OIA)

Date: April 13, 2016

Subject: OIA Review of BWC Internal Audit Operations

The OIA Fiscal Year 2015 and 2016 Annual Plans indicated that OIA would leverage and rely upon the work of the BWC internal auditors for financial processes at BWC. The BWC internal auditors completed engagements during calendar year 2015 on which OIA relied to discharge its responsibilities.

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

The guidance above identified five principles in determining reliance which are summarized below:

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: The BWC Internal Audit Charter describes its purpose in compliance with IIA *Standards*. The most recent charter revision for the period under review was approved by the BWC Board of Director's Audit Committee on May 21, 2014. Additionally, the BWC internal audit division completed the Fiscal Year 2016 Annual Plan that was approved by the Board on June 26, 2015.

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 Division's Charter as well as the BWC Board of Director's Audit Committee's Charter. The members of the BWC Board of Director's Audit Committee



are appointed outside the management of BWC. Additionally, the appointment of the BWC Chief of Internal Audit, David Kooser, was made with input from the BWC Audit Committee Chair and approved by the BWC Audit Committee on September 25, 2015.

- 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: A sample review of working papers prepared by the BWC Internal Audit Division contained evidence of the BWC departmental processes, associated risks of those processes, controls implemented to mitigate those risks, and any weaknesses or deficiencies identified by the BWC Internal Audit Division. In addition, the BWC Internal Audit Division's annual risk assessment was reviewed by OIA during their planning processes.

- 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 the OIA Internal Audit Section Chief found that the engagements were effectively planned, documented, analyzed and reported. The BWC Internal Audit Division is utilizing a policies and procedures manual that was last updated in September 2014.

BWC utilizes a continuous auditing approach. Assurance procedures for one set of working papers were documented in Word documents and Excel spreadsheets, increasing the risk that work could be altered after the supervisory reviews were completed. Furthermore, two issues identified on the scorecard did not trace to a specific work paper.

Assurance procedures for another set of working papers were documented in an electronic workpaper system which clearly documented the work performed to address the objectives. However, the electronic working papers did not document the supervisors and/or managers review of the work performed.

- 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 the final audit results. These monthly meetings are open to the public and attended by the OIA representatives. A process to monitor and track the status of outstanding audit issues was discontinued in June of 2015.



Based upon the results of our work and discussions with BWC, OIA determined that the BWC Internal Audit Division may be relied upon as an internal audit assurance provider. We encourage the BWC Internal Audit Division to consistently utilize and document their work within the electronic workpaper system in order to enhance the security and flow of those workpapers. It would also address the risk of altering workpapers after supervisory review and provide a more efficient method of assuring all workpapers are completed, issues are adequately supported, and reviewed. We also encourage the BWC Internal Audit Division to reestablish a process to monitor and track the status of issues and present this information to the BWC Board of Director's Audit Committee throughout the year.

If you have any questions, please feel free to contact me at (614) 728-4661.

cc: Cindy Klatt, Chief Audit Executive, OBM Office of Internal Audit