



RELYING ON THE WORK OF ASSURANCE PROVIDERS

To: Geoffrey Phillips, Internal Audit Chief, Bureau of Workers' Compensation (BWC)

From: Cindy Klatt, Chief of Quality Assurance, OBM Office of Internal Audit (OIA)

Date: December 5, 2013

Subject: OIA Review of BWC Internal Audit Operations

The OIA Fiscal Year 2013 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 2013 on which OIA relied 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 audit) 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 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: OIA found the BWC internal audit charter to fully describe its purpose in compliance with IIA *Standards*. The most recent charter revision was approved by the BWC Board of Directors on June 21, 2013. Additionally, BWC internal audit completed a Fiscal Year 2013 Annual Plan that was approved by the Board on June 15, 2012.

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 former BWC Chief of Internal Audit Dennis Vanek 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 July 18, 2013 describes the competence level of the 12 member staff. The BWC internal audit staff averages 14 years of business experience and 14 years of audit experience. Thirty-three percent of staff members hold advanced degrees, while 75% have earned professional certifications including six Certified Public Accountants and four 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. A policies and procedures manual was developed since the last assurance review.

BWC utilizes a continuous auditing approach. Work is primarily documented in Word documents and Excel spreadsheets, increasing the risk that work could be altered after supervisory review. One file was opened with errors and a few files did not contain supervisory sign-offs. There are few, if any, automated links between the workpapers, and some procedures, such as the results of the quarterly management and risk assessment meetings, could be more thoroughly documented.

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 of our work, OIA determined that BWC internal audit may be relied upon as an internal audit assurance provider. We encourage BWC internal audit to consider documenting their work utilizing audit workpaper software. Using audit workpaper software would enhance the security of the 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 and reviewed.

In the future, BWC internal audit may want to explore the possibility of having an external assessment performed on their department to further enhance audit quality and obtain additional perspectives on audit efficiencies and documentation.

If you have any questions, please feel free to contact me at 995-9973.

cc: Joe Bell, Chief Audit Executive, OBM Office of Internal Audit