



RELYING ON THE WORK OF ASSURANCE PROVIDERS

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

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

Date: December 18, 2014

Subject: OIA Review of BWC Internal Audit Operations

The OIA Fiscal Year 2014 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 2014 on which OIA relied to discharge its responsibilities.

The Institute of Internal Auditors (IIA) issued guidance titled "Reliance by Internal Audit on Other Assurance Providers" which 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: The BWC Internal Audit charter fully describes its purpose in compliance with IIA *Standards*. The most recent charter revision was approved by the BWC Board of Directors on June 18, 2014. Additionally, BWC Internal Audit completed the Fiscal Year 2014 Annual Plan that was approved by the Board on July 18, 2013.

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.



- 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 BWC Internal Audit contained evidence of BWC departmental processes, associated risks of the processes, controls implemented to mitigate those risks, and any weaknesses or deficiencies identified by BWC Internal Audit. In addition, BWC Internal Audit's annual risk assessment was reviewed by OIA's Chief of Quality Assurance.

- 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 found engagements to be appropriately planned, documented, analyzed, reviewed, and reported. BWC Internal Audit's policies and procedures manual was updated since the previous 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. BWC Internal Audit's working papers currently do not include audit programs nor are they arranged in a manner that would assist an outside reviewer to efficiently determine the work performed. BWC has allocated funds in their budget to acquire audit workpaper software in fiscal year 2015. BWC Internal Audit has also agreed to be included in the scope of OIA's next external peer review to take place in 2017.

- 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, after they acquire the audit workpaper software, to include audit programs and documentation of their audit approach in their workpapers so that outside reviewers will be able to efficiently review the work.

If you have any questions, please feel free to contact me at (614) 995-9973.

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