



## RELYING ON THE WORK OF ASSURANCE PROVIDERS

**To:** Jennifer Wilson, Deputy Director of Internal Audit, Ohio Lottery Commission

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

**Date:** September 22, 2016

**Subject:** OIA Review of OLC Internal Audit Operations

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The OIA Fiscal Year 2015 and 2016 Annual Plans indicated that OIA would leverage and rely upon the work of the Ohio Lottery Commission's (OLC) Office of Internal Audit for business processes at OLC. The OLC 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 (OLC 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 OLC 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 OLC Office of Internal Audit's Charter describes its purpose in compliance with IIA *Standards*. The most recent charter revision for the period under review was approved by the OLC's Audit Committee on June 15, 2015. Additionally, the OLC Office of Internal Audit completed the Annual Plans for Fiscal Years 2015-16 and 2016-17, which were also approved by the OLC's Audit Committee on June 16, 2014 and June 15, 2015, respectively.

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

Results: The independence of the OLC internal auditors is clearly described in both the OLC Office of Internal Audit's Charter as well as the OLC Audit Committee's Charter.



Additionally, the members of the OLC Audit Committee are appointed outside the management of OLC.

- 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 OLC Office of Internal Audit contained evidence of the OLC departmental processes, associated risks of those processes, controls implemented to mitigate those risks, and any weaknesses or deficiencies identified by the OLC Office of Internal Audit. In addition, the OLC Office of Internal Audit'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 Section Chief found that the engagements were effectively planned, documented, analyzed, reviewed, and reported. The OLC Office of Internal Audit is utilizing a policies and procedures manual that was last updated in June 2015.

Assurance procedures for two audits selected for review were included in an electronic workpaper system which clearly documented the work performed to address the objectives and the review and approval by management. However, for one set of working papers, the samples selected for two objectives were not representative of the populations as many items selected for control testing were marked "not applicable". Furthermore, the sampling methodology for two of the objectives differed (e.g., testing 5% or 10% of the population) even though the population (i.e., number of items) was the same and there was no explanation documented in the working papers to support this difference.

Additionally, a quality assurance review or checklist was not completed for either set of working papers.

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

Results: The OLC Deputy Director of Internal Audit provides an executive summary of their audit results and a dashboard identifying the status of their audits, timeliness of corrective action, and open/closed issues to the OLC Audit Committee on a quarterly basis. These meetings are open to the public and attended by OIA representatives.



Based upon the results of our work and discussions with OLC Internal Audit, OIA determined that the OLC Office of Internal Audit may be relied upon as an internal audit assurance provider. We encourage the OLC Office of Internal Audit to ensure an appropriate sample is being selected for each control test and, if the sampling methodology deviates between objectives for the same population, document the reasoning for this change in the working papers. We also encourage the OLC Office of Internal Audit to establish a quality assurance review or checklist to be completed at the end of each assurance and consulting engagement. This review or checklist will provide consistency on how the assurance or consulting procedures are being addressed and ensure that OLC's Office of Internal Audit is conducting their audit activities in accordance with IIA *Standards*.

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