



RELYING ON THE WORK OF ASSURANCE PROVIDERS

To: Jennifer Wilson, Deputy Director of Internal Audit, Ohio Lottery Commission (OLC)

From: Cindy Klatt, Acting Chief Audit Executive, OBM Office of Internal Audit (OIA)

Date: March 16, 2015

Subject: OIA Review of OLC Internal Audit Operations

The Internal Audit function at OLC is under the purview of OBM's Office of Internal Audit. OIA's intention is to leverage and rely upon the work of OLC's internal auditors for certain processes at OLC; OIA also performs some assurance work at OLC. OIA performed a review of two OLC Internal Audit's engagements completed during fiscal year 2015 in order to determine the degree of reliance that could be placed on OLC's work.

The Institute of Internal Auditors (IIA) has issued guidance entitled "Reliance by Internal Audit on Other Assurance Providers". This guidance suggests limited procedures be performed by internal audit (OIA) to determine whether the other assurance provider (OLC 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 OLC internal auditors.

Based upon the results of our work, OIA determined that OLC internal audit **may be relied upon** as an internal audit assurance provider with continuing oversight on the part of OIA.

The guidance above identified five principles in determining reliance, which are summarized below, along with the our results and any suggested actions:

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 determined that the OLC internal audit charter fully describes its purpose in compliance with IIA *Standards*. The most recent charter revision was approved by OLC's Deputy Director for Internal Audit Jennifer Wilson, Executive Director Dennis Berg, and Audit Committee Chair Sean Whalen on June 16, 2014. In addition, OLC internal audit completed a Fiscal Year 2015-2016 Annual Plan that was approved by



OLC's Deputy Director for Internal Audit, Executive Director and OIA's Chief Audit Executive Joe Bell in June, 2014.

Action: OLC should continue the practice of updating the internal audit charter and audit plan and submitting for appropriate approvals on an annual basis.

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 the OLC internal audit charter and is also evidenced by the internal auditors' preparation of confirmation of independence forms, affirming no conflicts of interest. In addition, the OLC Audit Committee members 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. Characteristics of proficiency for assurance providers include organizational process expertise, education level, professional experience, relevant professional certifications, continuing education, and reputation for sound judgement.

Results: The four OLC internal audit staff members currently in place average 13 years of business experience (excluding auditing) and 15 years of audit experience. All hold bachelor's degrees and two have audit-related professional certifications (Certified Information Systems Auditor and Certified Fraud Examiner). All four staff are actively engaging in and tracking relevant continuing education activities.

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 found engagements to be effectively planned, supervised, documented and reviewed. OLC Internal Audit is currently in the process of finalizing their policy manual as required by the *Standards*. OLC internal audit has agreed to be a part of OIA's external peer review in 2017.

Action: OLC Internal Audit should continue finalizing their policy manual and improving their audit work paper documentation. Ongoing self-assessments will be important in preparing for the upcoming external peer review.



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 well-documented audit reports to management and the OLC Audit Committee. In addition, Ms. Wilson has endeavored to address numerous long-standing audit issues. These issues are now being tracked in an automated manner and are only closed after the risk has been mitigated.

Action: OLC Internal Audit should continue to assertively follow up and track remediation activity of reported audit issues and communicate the progress to the OLC Audit Committee, which will then report to the Commission.

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

cc: Sean Whalen, OLC Audit Committee Chairperson