

# AUDIT COMMITTEE CHARTER



MARCH 10, 2021

## I. PURPOSE

To assist the Board of Trustees in fulfilling its oversight responsibilities in the areas of:

- Financial Reporting,
- Risk management,
- Internal control,
- Internal audit,
- Engagement of external auditors,
- Compliance with laws and regulations and the code of conduct and
- Special investigations and whistleblowers mechanism

## II. AUTHORITY

The Audit Committee (Committee) has the authority to direct the Director – Internal Audit Division, external auditors, and/or consultants to conduct an audit, review and/or investigate any matters within the Committee’s scope of responsibility. It is empowered to:

- Pre-approve all auditing and non-audit services.
- Retain independent counsel, accountants, or others to advise or assist the Committee in the performance of its responsibilities.
- Meet with management, external and internal auditors, or outside counsel as necessary.
- Resolve any disagreements between management and the external auditors.

## III. COMPOSITION

The Chair of the Board of Trustees (Board) shall appoint at least three and no more than six members from the Board of Trustees as the Audit Committee and designate a chair and vice-chair, as necessary.

Members of the Committee shall serve until the next such appointment by the Chair of the Board of Trustees or until their successors have been appointed and qualified. The members of the Committee may be removed, with or without cause, by a majority vote of the Board.

## IV. MEETINGS

The Committee will meet at least annually, with the authority to convene additional meetings, as circumstances require. All Committee members are expected to attend each meeting in person or via tele or video-conference. Meetings will be conducted in accordance with open meeting and other applicable laws.

Notice of meetings will be posted with the Secretary of State and will be open to the public. Notice of special meetings will not be posted and open unless directed by the Chair of the Committee.

Meeting agendas and briefing materials will be prepared and provided in advance to committee members. Staff will prepare minutes of the formal meetings. The Committee will approve the minutes. The Committee will invite members of management, auditors and others to attend the meeting and provide pertinent information, as necessary.

To foster open communication, the Committee shall meet separately, at least annually, with the Director, Internal Audit Division to discuss any matters that the Committee believes should be discussed privately. The Committee shall meet periodically in executive session.

## V. RESPONSIBILITIES

The principal duties and responsibilities of the Committee in carrying out its oversight responsibilities include:

### A. Financial Reporting

- Obtain information and/or training to enhance the Committee's understanding of the agency's financial reports and the related financial reporting processes.
- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Inquire as to the external auditors' independent judgment about the appropriateness, not just the acceptability, of the accounting principles adopted by the organization and clarity of financial disclosures.
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.

- Review the annual financial statements and any reports submitted to any government body; consider whether they are complete, consistent with information known to committee members and reflect appropriate accounting principles.
- Review the responsiveness and timeliness of management's actions to address findings and recommendations that resulted from the financial statement audit.
- Review with management and the external auditors all matters required to be communicated to the committee under general accepted auditing standards.
- Review with the General Counsel the status of legal matters that may have an effect on the financial statements.

#### B. Risk Management

- Obtain information and/or training to enhance the Committee's understanding of the organization's risk and the related risk management processes.
- Review the adequacy of the organization's policy on risk management.
- Review the effectiveness of the organization's system for assessing, monitoring, and controlling significant risks or exposures.
- Review management's reports on risks and related risks mitigations.
- Hire outside experts and consultants in risk management as necessary.

#### C. Internal Control

- Obtain information and/or training to enhance the Committee's understanding of the organizations internal control system.
- Consider the effectiveness of the organization's internal control system, including information technology security and control.
- Understand the scope of internal and external auditor's review of internal control over financial reporting, operational execution and regulatory compliance, and obtain reports on significant findings and recommendations, together with management responses.
- Ensure that contracts with external service providers contain appropriate record keeping and audit language.

#### D. Internal Audit

- Obtain information and/or training to enhance the Committee's understanding of the internal audit function.
- Review, discuss and ~~approve~~consider the internal audit charter annually. The charter should be reviewed to ensure that it is consistent with changes in the financial, risk management, and governance arrangements of the organization and reflects developments in internal audit professional practices.
- Review and confirm the independence of the Internal Audit function through establishment of an organizational structure with direct lines of reporting between Internal Audit and the Committee.
- Approve decisions regarding the appointment, replacement, or dismissal of the Internal Audit Director.
- At least once per year, review the performance of the Internal Audit Director and concur with the annual compensation and salary adjustment.
- Ensure that Internal Auditors have full, free, and unrestricted access to all functions, documents, information, systems, contractors, consultants and personnel in the organization.
- Review and approve the internal audit division's staffing plan and budget.
- Review and approve the risk-based internal audit annual audit plan and all major changes to the plan.
- Receive and review all internal audit reports and corresponding management action plans to address recommendations. Be advised of any internal audit engagement or tasks that do not result in a report.
- Review regular reports on the implementation status of approved management action plans resulting from prior internal audit recommendations including the timeliness of management's corrective actions.
- Review the effectiveness of the internal audit function, including conformance with the Institute of Internal Auditor's Definition of Internal Auditing, Code of Ethics and the *International Standards for Professional Practice of Internal Auditing*.

- On an as needed basis, meet separately with the Director, Internal Audit Division to discuss any matters that the committee or internal audit believes should be discussed privately.
- Obtain and review the quality assurance report for the Internal Audit Division at least once every three years. Review for any concerns noted.
- Designate the Director, Internal Audit Division as the primary point of contact for handling all matters related to audits, examinations, investigations or inquiries of the state auditor and other state or federal agencies.

#### E. Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instance of non-compliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations related to compliance, and the responsiveness and timeliness of management's actions to address the findings/observations.
- Review the process for communicating and monitoring compliance with the code of ethics, code of conduct and fraud policies.
- Obtain regular updates from management and agency general counsel regarding compliance matters.

#### F. Special Investigation and Whistleblower Mechanism

- Institute and oversee special investigations as needed.
- Ensure the creation and maintenance of an appropriate whistleblower mechanism for reporting any fraud, noncompliance and/or inappropriate activities.
- Retain independent counsel, accountants or other specialists to advise the Committee or assist in the conduct of an investigation.

#### G. Other Responsibilities

- Regularly report to the Board of Trustees about committee activities, issues, and related recommendations if committee is not comprised of the entire Board.
- Provide an open avenue of communication between internal audit, external

auditors, management, and the Board of Trustees.

- Review and assess the adequacy of the committee charter biannually, requesting board approval for the proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Evaluate the committee's and individual member's performance on a regular basis.
- The ERS Investment Policy requires all members of the Audit Committee (Board of Trustees) to be governed in their personal investment activities by the Standards of Professional Conduct as established by the CFA Institute (CFAI) and applicable state statutes. As a result, all persons falling under the policy guideline are required to complete an annual compliance affirmation with the Code of Ethics and CFAI.

## VI. APPROVAL OF AUDIT SERVICES

All requests for audit services not included in the Annual Audit Plan must be submitted to the Director of Internal Audit in writing. Requests can be made by the Committee members or agency management. He/she will assess the request and estimate the resource requirements and impact on the approved Annual Audit Plan.

Any request that is determined to require more than 150 hours of audit resources must be approved by the Committee Chair. If approved, the Annual Audit Plan will be amended. Results of all audit work will be reported to the Committee.

## VII. DOCUMENT APPROVAL

The Committee adopted this Audit Committee Charter on March 10, 2021. This Charter is effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

Submitted and reviewed by:

Approved by:

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Anthony (Tony) Chavez, CIA, CGAP, CRMA  
Director – Internal Audit Division

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Brian Barth  
Audit Committee, Chair