

Internal Audit Charter

INTERNAL AUDIT SERVICES

August 2021



2021



INTERNAL AUDIT CHARTER

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INTERNAL AUDIT CHARTER

I. PURPOSE AND MISSION

The purpose of Internal Audit is to provide independent and objective assurance services, and consulting services designed to add value and improve LACERA's operations. The mission of Internal Audit is to enhance and protect LACERA's organizational values by providing risk-based and objective assurance, advice, and insight. Internal Audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

II. ROLE

The internal audit activity was established by the Audit Committee. Internal Audit's responsibilities are defined by the Audit Committee as part of the Audit Committee's oversight role.

III. OBJECTIVES

A. Assurance Objectives

The goal of assurance services is to provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the Audit Committee on governance, risk management, and control processes for LACERA. Assurance services include audits and continuous process testing to assess if the organization's assets are adequately safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws and LACERA policies. Assurance services also include the independent assessment of the organization's risk awareness, reliability, and integrity of the organization's data and the achievement of LACERA's goals and objectives.

B. Consulting Objectives

The objective of consulting services is to provide Management with formal assessments and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility. Internal Audit will participate as consultants in the assessment and review of controls, policies, procedures, and systems, both manual and electronic. In addition, opportunities for improving management controls, and LACERA's image may be identified during audits; and these will be communicated to the appropriate level of Management.

C. Advisory Objectives

The objective of advisory services is to provide informal advice to Management. Having Internal Audit consult at the beginning of a project, aids management in identifying and managing risks effectively, and designing adequate internal controls. Examples of advisory services include participating in various committees in ex-officio capacity;



providing routine advice on policies, establishing controls, providing training and risk management tools, and facilitating meetings.

IV. STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, *the International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The CAE will report periodically to executive management and the Audit Committee regarding Internal Audit's conformance to the Code of Ethics and the *Standards*.

Additionally, Internal Audit will obtain guidance from the professional standards and practices of other, relevant professional organizations, including but not limited to, the American Institute of Certified Public Accountants, the Information Systems Audit and Control Association, the Associate of Certified Fraud Examiners, and the Association of Public Pension Fund Auditors.

V. ORGANIZATION

The Chief Audit Executive (CAE) reports functionally to the Audit Committee of the Board of Investments and Board of Retirement, and administratively to the Chief Executive Officer. This reporting structure provides for Internal Audit's independence and objectivity as required by professional standards.

The Audit Committee's roles and responsibilities are defined in the Audit Committee Charter.

VI. AUTHORITY

Internal Audit, with strict accountability for confidentiality, and safeguarding of records and information, is authorized full, free, and unrestricted access to any and all of LACERA's hard copy and electronic records, data maintained within IT systems or databases, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities.

The CAE will have unrestricted access to, and communicate directly with the Audit Committee and Boards, subject to the requirements of the Ralph M. Brown Act (Government Code Section 54950, et seq.).

VII. INDEPENDENCE AND OBJECTIVITY

Internal Audit will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.



Internal Audit will be diligent in monitoring its own potential conflicts of interest in performing its Mission, Objectives, and Responsibility under this Charter. Where a conflict is identified, the Audit Committee will be advised, and a determination will be made by the Committee as to whether to proceed and procure an independent outside auditor. Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the Internal Auditor's judgment.

Internal Auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The CAE will confirm to the Audit Committee, at least annually, the organizational independence of the Internal Audit division. The CAE will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

VIII. SCOPE OF INTERNAL AUDIT ACTIVITIES

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of LACERA's governance, risk management, and control processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives.

A. LACERA's Operations

1. Assess that management has established processes and systems that are operating within the highest fiduciary standards and are directed toward the requirements defined in the Federal and state laws, regulations, and LACERA policies and procedures.
2. Evaluate the efficiency and effectiveness of processes and resources deployed.
3. Review the reliability and integrity of financial and operational information, and the means used to identify, measure, classify, and report such information.

B. Values & Ethics

1. Assess LACERA's processes for promoting appropriate ethics and values within the organization.



2. Review Management's process for communicating and monitoring compliance with LACERA's Code of Ethical Conduct for all stakeholders.

C. Organizational Governance

1. Risk Management
 - a. Assess business risks and effectiveness of mitigating control mechanisms.
 - b. Assess Management's implementation and maintenance of an appropriate enterprise wide risk management process.
2. Fraud
 - a. Assess LACERA's processes for preventing and detecting fraud.
 - b. Oversee LACERA's Ethics Hotline process.
3. System of Internal Controls
 - a. Review Management's established system of internal control to ascertain whether it is functioning as designed.
4. System of Compliance
 - a. Review the effectiveness of Management's system of compliance with laws, regulations, policies, and procedures that are business critical.

D. Other Responsibilities

1. Evaluate the quality of performance of Professional Service Providers, including the Financial Auditor, and the degree of coordination with Internal Audit.
2. Evaluate specific operations at the request of the Audit Committee, Boards, or Management, as appropriate.

IX. ACCOUNTABILITY

The CAE, in the discharge of his/her duties, shall be accountable to Management and the Audit Committee to:

- A. Select, train, develop, and retain a competent Internal Audit staff that collectively has the abilities, knowledge, skills, experience, and professional certifications to meet the requirements of this Charter. Report to the Audit Committee significant changes in Internal Audit personnel.
- B. Annually develop a flexible audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by Management, the Audit Committee, or the Boards. Submit the annual Audit Plan and significant interim changes to Executive Management and the Audit Committee for review and approval.



- C. Annually provide a proposed budget that corresponds to the annual Audit Plan.
- D. Issue reports to Management and the Audit Committee, at the conclusion of each Internal Audit engagement. The written reports will include Management's responses, and if applicable, Management's timetable for implementing recommendations or corrective actions.
- E. Establish and maintain a follow-up system to monitor the disposition of results communicated to Management and ensure Management actions have been effectively implemented or that Executive Management has accepted the risk of not taking action.
- F. Annually provide an assessment on Management's process for communicating and monitoring compliance with LACERA's Ethical Code of Conduct for all stakeholders.
- G. Annually provide an assessment on the adequacy and effectiveness of LACERA's organizational governance, including risk management, fraud, system of controls, and system of compliance.
- H. Provide a summary of all cases reported to the Ethics Hotline at each Audit Committee meeting.
- I. Report significant issues related to the processes for controlling the activities of LACERA and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- J. Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.

X. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the division's activities. The program will include an evaluation of the division's conformance with the Definition of Internal Auditing and the Standards, and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of Internal Audit's activity and identifies opportunities for improvement.

The CAE will communicate to Executive Management and the Audit Committee on the Internal Audit division's quality assurance and improvement program, including the results of internal assessments and external assessments which are conducted at least once every five years by a qualified, independent assessor.

**XI. APPROVAL**

This Internal Audit Charter (“IA Charter”) was reviewed and adopted by the Audit Committee on August 26, 2021 . This IA Charter is thereby effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

APPROVED AND ADOPTED BY:

<i>Signature on File</i>	<u>09/15/21</u>	<i>Signature on File</i>	<u>09/15/21</u>
Joseph Kelly <i>Chair, Audit Committee</i>	Date	Santos H. Kreimann <i>Chief Executive Officer</i>	Date
 <i>Signature on File</i>	 <u>09/15/21</u>		
Richard Bendall <i>Chief Audit Executive</i>	Date		