



Kentucky Retirement Systems
Division of Internal Audit Administration

Charter

Effective Date: September 12, 2019

Table of Contents

Page No.

1) <u>The Charter</u>	3
2) <u>Mission of Internal Audit</u>	3
3) <u>Purpose of Internal Audit</u>	3
4) <u>Core Principles of Internal Audit</u>	3
5) <u>Role and Objective of Internal Audit</u>	3
6) <u>Independence</u>	4
7) <u>Authority</u>	4
8) <u>Responsibilities</u>	5
9) <u>Scope of the Division of Internal Audit Administration</u>	5
10) <u>Audit Plans</u>	6
11) <u>Audit Committee</u>	6
12) <u>Audit Methodology</u>	6
13) <u>Audit Reports</u>	6
14) <u>Relationship with External Auditor</u>	7
15) <u>Audit Standards</u>	7
16) <u>Quality Assurance and Improvement Plan</u>	7
17) <u>Approvals</u>	8
18) <u>Exhibit A – IIA Code of Ethics</u>	9

DIVISION OF INTERNAL AUDIT ADMINISTRATION

1. The Charter

This Charter establishes the authority and responsibility of the Division of Internal Audit Administration as conferred by the Audit Committee of the Board of Trustees (Board) of the Kentucky Retirement Systems (KRS).

2. Mission of Internal Audit

To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

3. Purpose of Internal Audit

As defined by the Institute of Internal Auditors, internal auditing is *an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The goal of internal auditing is to help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.* The Division of Internal Audit Administration helps KRS accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.

4. Core Principles of Internal Audit

- Remain objective and free from undue influence (independent).
- Demonstrate competence and due professional care.
- Demonstrate integrity.
- Support the strategies, objectives, and risks of the organization.
- Report directly to the Audit Committee and remain adequately resourced.
- Promote quality and continuous organizational improvement by communicating effectively; providing risk-based assurance; and remaining insightful, proactive, and future-focused.

5. Role and Objective of Internal Audit

The internal audit function is established to assist the KRS Executive Director, management, and Board to attest to its governance role and achieve sound managerial control over all operational aspects of KRS including, but not limited to, accounting, benefits, legal compliance, asset management, and information management and control systems.

The primary objective of the Division of Internal Audit Administration is to assist all levels of management in achieving the effective discharge of assigned responsibilities by providing independent analysis, appraisals, advice, and recommendations concerning the activities reviewed. Accomplishment of this objective may involve:

- Evaluating the adequacy and effectiveness of the system of internal control.
- Evaluating the relevance, reliability, and integrity of management, financial and operating data and reports.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, statutory requirements, and regulations which could have a significant impact on operations.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the economy, efficiency, and effectiveness with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with KRS' established objectives and goals and whether the operations or programs are being carried out as planned.
- Assessing the adequacy of established systems and procedures.
- Conducting special assignments and investigations on behalf of the Audit Committee and/or Executive Director into any matter or activity affecting the probity, interests, and operating efficiency of KRS.

6. Independence

Internal auditing is an advisory function having independent status within KRS. The Internal Audit Director:

- Shall be independent of any other section, branch, division, or officer and shall have direct access to the Audit Committee and/or Executive Director, if required.
- Shall have no executive or managerial powers, functions, or duties except those relating to the management of the Division of Internal Audit Administration.
- Shall not be involved in the day-to-day operation of KRS.
- Shall not be responsible for the detailed development and/or implementation of new systems, but should be consulted during the system development process on the control measures to be incorporated in new or amended systems, and be advised of approved variations or new developments.

7. Authority

The Internal Audit Director will report functionally to the Audit Committee. Functionally meaning the Audit Committee approves items including, but not limited to the Audit Plan, various audit Charters, the audit budget, staffing, and organizational structure of the internal audit function.

The Internal Audit Director will report administratively to the KRS Executive Director. Administratively meaning the Internal Audit Director and KRS Executive Director work together on day-to-day activities including, but not limited to leave reporting, training, travel, development of the Audit Plan, and staffing requirements.

The Internal Audit Director of KRS shall:

- Have access, at all reasonable times, to all books, documents, accounts, property, vouchers, records, correspondence, and other data of KRS necessary for the proper performance of the internal audit function.
- Have the right, at all reasonable times, to enter any premises of KRS and to request and promptly receive from any officer all information and such explanations deemed necessary for the Internal Audit Director to formulate an opinion on the probity of action, adequacy of systems, and/or of controls.

It is incumbent that all KRS officers shall render assistance to the Internal Audit Director in carrying out his/her audit duties.

8. Responsibilities

The Internal Audit Director shall be responsible to the Audit Committee for the functional control of audit activities in relation to:

- Development, implementation, and oversight of internal audit methods and procedures.
- Development and control of an efficient internal audit program.
- Scope and boundaries of internal audits.
- Documentation of audit findings.
- Assistance in the investigation of significant suspected fraudulent activities and promptly notifying the Audit Committee and Executive Director of the results of any findings and conclusions.
- Maintenance of certain records such as, but not limited to, records related to internal audits, Board elections, and investment compliance.
- Considering the scope of work of the external auditors and regulators, as appropriate, for providing optimal audit coverage at a reasonable overall cost.
- Fulfilling the objectives of the Division of Internal Audit Administration.
- Utilizing the Division of Internal Audit Administration resources to maximize the efficiency and effectiveness of the internal audit function.
- Adherence to appropriate auditing standards.
- Review of the Annual Independent Audit Report, Management's Discussion and Analysis, Financial Statements, and footnotes prior to presentation to the Audit Committee. The Internal Audit Director will discuss with Executive Management and the external auditor any perceived errors and discrepancies. Executive Management, not the Internal Audit Director, will retain responsibility for the substantive content, accuracy, consistency, and completeness of Management's Discussion and Analysis, Financial Statements, and footnotes.

9. Scope of the Division of Internal Audit Administration

The scope of the Division of Internal Audit Administration shall be sufficiently comprehensive to enable the effective and regular review of all operational, financial, and related activities. The internal audit coverage may extend to all areas of KRS and include financial, accounting, benefits, administrative, computing, and other operational activities. The extent and frequency of internal audits will depend upon varying circumstances such as results of previous audits,

relative risk associated with activities, materiality, the adequacy of the system of internal control, and resources available to the Division of Internal Audit Administration.

The Division of Internal Audit Administration provides the following assurance services to KRS: independent appraisals of the various operations and systems of control within KRS to determine whether acceptable policies and procedures are followed, legislative requirements and established standards are met, resources are used efficiently and economically, planned missions are accomplished effectively, and the objectives of KRS are achieved. Assurance services are not provided to entities outside of KRS.

The Division of Internal Audit Administration provides the following consulting services to KRS: advice and guidance to management concerning controls in new systems, drafting policies, and participation on the Information Technology Governance team and other similar KRS teams.

10. Audit Plans

Consistent with the long-term strategic plan, the Internal Audit Director shall prepare an annual Audit Plan providing for the review of significant operations of KRS based on an assessment of risks pertaining to the achievement of KRS' objectives. The Annual Audit Plan shall be presented to the Audit Committee for deliberation and finalization.

Upon approval by the Audit Committee, the annual Audit Plan will be presented at the May Board meeting, if practicable.

11. Audit Committee

The purpose, authority, composition, and responsibilities of the Audit Committee are outlined in the KRS Audit Committee of the Board of Trustees Charter and the [*Statement of Bylaws and Committee Organization*](#).

12. Audit Methodology

For all audit projects, the person responsible for the activity under review shall be advised and given the opportunity to discuss the following:

- Objectives and scope of the audit to be conducted, prior to the commencement of such audit.
- Findings and proposed recommendations upon the completion of an audit, including providing an official response to the findings.

13. Audit Reports

A comprehensive written report will be prepared and issued by the Division of Internal Audit Administration at the conclusion of each audit and will be distributed as considered appropriate. A copy of each report is to be made available on a timely basis to the Audit Committee and the Executive Director.

Audit reports will normally explain the scope and objectives of the audit, present findings and conclusions in an objective manner relevant to the specific user's needs, and make recommendations where appropriate.

14. Relationship with External Auditors

Upon request, the Internal Audit Director shall make available to the external auditors all internal audit working papers, programs, flowcharts, and reports. The Internal Audit Director shall work with the external auditors to:

- Foster a cooperative working relationship.
- Reduce the incidence of duplication of effort.
- Ensure appropriate sharing of information.
- Ensure coordination of the overall audit effort.

15. Audit Standards

Internal auditing shall adhere to the *International Standards for the Professional Practice of Internal Auditing* (Standards). Where applicable, the Division of Internal Audit Administration will observe standards and statements issued by other accounting and auditing organizations located within the United States of America. The Division of Internal Audit Administration is expected to abide by the Institute of Internal Auditors (IIA) Code of Ethics (Exhibit A).

The Division of Internal Audit Administration will adhere to the IIA's Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing (see section 4), the Code of Ethics (see Exhibit A), the *Standards*¹, and the definition of internal auditing (see section 3). The Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the Division of Internal Audit Administration's performance.

16. Quality Assurance and Improvement Plan

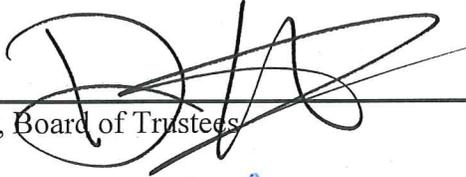
The Division of Internal Audit Administration will maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include an evaluation of the Division of Internal Audit Administration's conformance with the Standards and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the Division of Internal Audit Administration and identify opportunities for improvement.

The Division of Internal Audit Administration will conduct both ongoing and periodic internal assessments and a qualified, independent assessor (or assessment team) will conduct an external assessment at least once every five (5) years. The Internal Audit Director will provide the results of the quality assurance and improvement program, including results of internal and external assessments, to the Audit Committee and Executive Director.

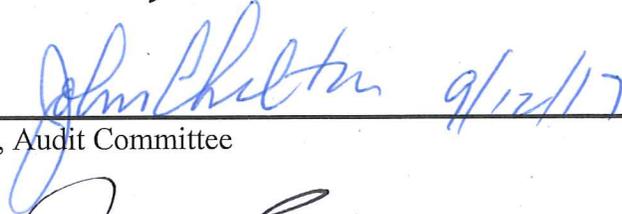
¹ <https://na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>

17. Approvals

We, the undersigned of KRS, do certify that this Charter was approved by the Board on September 12, 2019.



Chair, Board of Trustees



Chair, Audit Committee



Executive Director, Kentucky Retirement Systems



Internal Audit Director



Reviewed by Office of Legal Services

EXHIBIT A

{ CODE of ETHICS... }

// PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

- **Objectivity**

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

- **Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

// RULES OF CONDUCT

1. **Integrity**

Internal Auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. **Objectivity**

Internal Auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. **Confidentiality**

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.