

Kentucky Retirement Systems

Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601-6157

Audit Committee of the Board of Trustees

Charter

Contents:

1. The Charter
2. Purpose
3. Authority
4. Composition
5. Meetings
6. Responsibilities
7. Approvals

1. The Charter

This charter establishes the authority and responsibility of the Audit Committee of the Board of Trustees of Kentucky Retirement Systems.

2. Purpose

The purpose of the Audit Committee of the Board of Trustees is to assist the board of Kentucky Retirement Systems in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the internal and external audit processes, and the process for monitoring compliance with laws and regulations and the code of conduct.

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. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*

According to this definition, internal auditing for Kentucky Retirement Systems can be defined as the independent appraisal of the various

operations and systems of control within Kentucky Retirement Systems 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 Kentucky Retirement Systems are being achieved.

3. Authority

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- appoint, compensate, and oversee the work of any registered public accounting firm employed by Kentucky Retirement Systems;
- resolve any disagreements between management and the internal or external auditor regarding financial reporting;
- pre-approve all auditing and non-audit services;
- retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation;
- seek any information it requires from employees (all of whom are directed to cooperate with the committee's requests) or external parties, and;
- meet with officers, internal and/or external auditor, or outside counsel as necessary.

4. Composition

The audit committee will consist of at least three and no more than seven members of the Board of Trustees. Each committee member will be both independent and financially literate. At least one member may be designated as the "financial expert", as defined by professional accounting and auditing standards.

5. Meetings

The audit committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as deemed necessary. It will hold private meetings with auditors and executive sessions. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will also be prepared.

6. Responsibilities

The audit committee will execute the following responsibilities:

- **Financial Statements:**

- a. 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;
- b. review with management and the internal and external auditors the results of their respective audits, including any difficulties encountered;
- c. review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles;
- d. review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information;
- e. review with management and the external auditor all matters required to be communicated to the committee under generally accepted auditing standards;
- f. understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement, and;
- g. review interim financial reports with management and the external auditors before filing with regulators, and consider whether they are complete and consistent with the information known to committee members.

- **Internal Control:**

- a. consider the effectiveness of the internal control system, including information technology security and control, and;
- b. understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

- **Internal Audit:**

- a. review with management and the internal audit director the charter, plans, activities, budget, staffing, and organizational structure of the internal audit function;
- b. ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the internal audit director;
- c. review the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, and;
- d. on a regular basis, meet separately with the internal audit director to discuss any matters that the audit committee or division of internal audit believes should be discussed privately.

- **External Audit:**

- a. review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit;
- b. review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors;
- c. review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and Kentucky Retirement Systems, including non-audit services, and discussing the relationships with the auditors, and;
- d. annually meet separately with the external auditors to discuss any matters that the audit committee or auditors believe should be discussed privately.

- **Compliance:**

- a. 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 instances of noncompliance;
- b. review the findings of any examinations by regulatory agencies, and any auditor observations;

- c. review the process for communicating the code of conduct to personnel, and for monitoring noncompliance therewith, and;
- d. obtain regular updates from management and legal counsel regarding compliance matters.

- **Reporting Responsibilities:**

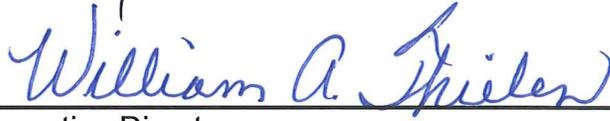
- a. regularly report to the Board of Trustees about audit committee activities, issues, and related recommendations;
- b. provide an open avenue of communication between internal audit, the external auditors, and the Board of Trustees; and,
- c. review any other reports Kentucky Retirement Systems issues that relate to audit committee responsibilities.

- **Other Responsibilities:**

- a. perform other activities related to this charter as requested by the Board of Trustees;
- b. institute and oversee special investigations, as needed;
- c. review and assess the adequacy of the audit committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation;
- d. confirm annually that all responsibilities outlined in this charter have been carried out, and;
- e. evaluate the audit committee's and individual members' performance on a regular basis.

7. Approvals

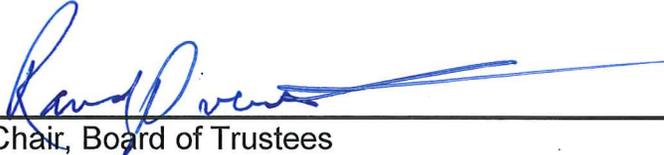
We, the undersigned of the Kentucky Retirement Systems, do certify that this Charter was approved by the Board of Trustees on this the 20 day of February, 2014.



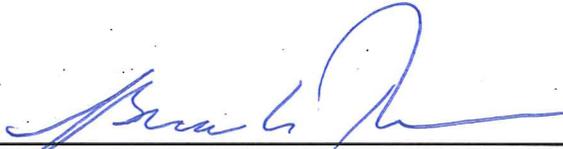
Executive Director



Chair, Audit Committee



Chair, Board of Trustees



Reviewed by General Counsel