

Kentucky Retirement Systems

Perimeter Park West
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Division of Internal Audit

Charter

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1. The Charter

This charter establishes the authority and responsibility conferred by the Executive Director and/or Audit Committee of the Board of Trustees of Kentucky Retirement Systems on the Division of Internal Audit.

2. Nature 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. 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. **Role and Objective of Internal Audit**

The internal audit function is established to assist the Executive Director and management of Kentucky Retirement Systems to attest to its governance role and achieve sound managerial control over all aspects of the operations of Kentucky Retirement Systems including accounting, provision of benefits, asset management, information management and control systems, and for such other activities for which they are responsible.

The overall objective of the program of the Division of Internal Audit is to assist all levels of management in the effective discharge of their responsibilities by providing independent analysis, appraisals, advice, and recommendations concerning the activities reviewed.

The attainment of the overall objective may involve:

- reviewing and appraising the adequacy and effectiveness of the system of internal control;
- appraising the relevance, reliability and integrity of management, financial and operating data and reports;
- reviewing the systems established to ensure compliance with those policies, plans, procedures, statutory requirements and regulations which could have a significant impact on operations;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programs to ascertain whether results are consistent with Kentucky Retirement Systems' 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 Executive Director and/or Audit Committee into any matter or activity affecting the probity, interests and operating efficiency of Kentucky Retirement Systems.

4. **Independence**

Internal Auditing is an advisory function having independent status within Kentucky Retirement Systems. The Internal Auditor –

- shall be functionally responsible to the Audit Committee and administratively responsible to the Executive Director and be independent of any other section, branch or officer, and shall have direct access to the Executive Director and/or Audit Committee, if required;
- shall have no executive or managerial powers, functions or duties except those relating to the management of the Division of Internal Audit;
- shall not be involved in the day to day operation of Kentucky Retirement Systems, and;
- 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.

5. **Authority**

The authority of the Internal Auditor is derived from the Executive Director and/or the Audit Committee.

The Internal Auditor of Kentucky Retirement Systems shall:

- have access, at all reasonable times, to all books, documents, accounts, property, vouchers, records, correspondence and other data of Kentucky Retirement Systems which are necessary for the proper performance of the internal audit function, and;
- have the right, at all reasonable times, to enter any premises of Kentucky Retirement Systems and to request any officer to furnish all information and such explanations deemed necessary for him to form an opinion on the probity of action, adequacy of systems and/or of controls. The officer concerned shall respond promptly to such inquiries.

It is incumbent on all Kentucky Retirement Systems' officers that they shall render assistance to the Internal Auditor in carrying out his audit duties.

6. **Responsibilities**

The Internal Auditor shall be responsible to the Executive Director and/or Audit Committee of Kentucky Retirement Systems 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 audits;
- assist in the investigation of significant suspected fraudulent activities and notify the Executive Director and/or Audit Committee of the results;
- consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage at a reasonable overall cost;
- fulfilling the objectives of the Division of Internal Audit;
- utilizing the Division of Internal Audit resources to maximize the efficiency and effectiveness of the internal audit function, ~~and~~;
- maintenance of appropriate auditing standards; and
- prior to presentation to the Audit Committee, the Internal Auditor will review the Annual Independent Audit Report, Management's Discussion and Analysis, Financial Statements, and footnotes, and discuss with Executive Management and the External Auditor any perceived errors and discrepancies. However, Executive Management, **not** the Internal Auditor, is responsible for the substantive content, accuracy, consistency, and completeness of Management's Discussion and Analysis, Financial Statements and footnotes.-

7. **Scope of Internal Audit**

The scope of the Division of Internal Audit 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 Kentucky Retirement Systems 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.

8. **Audit Program**

A long term strategic audit plan providing for the review of significant operations of Kentucky Retirement Systems based on an assessment of risk pertaining to the achievement of Kentucky Retirement Systems'

objectives, shall be prepared for the approval of the Executive Director and/or Audit Committee.

An annual internal audit plan consistent with the long term strategic plan shall be prepared, in consultation with the Executive Director for the approval by the Audit Committee at the annual May board meeting, if practicable.

9. **Audit Committee**

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

The objectives of Kentucky Retirement Systems’ Audit Committee are:

- to review the proposed scope of the internal and the external audit function;
- to review audit performance and to ensure that no limitation on audit has been imposed by management;
- to appraise the effectiveness of the audit by discussing the approach to the examination and areas where special attention was considered necessary, review the coordination of audit effort between the external and internal auditors;
- to review the management letter provided by the external auditors on any weaknesses in internal accounting, organization and operating controls, and consider the recommendations made by the external auditor and the action taken by management in response to the external auditor’s suggestions, and;
- to review and/or initiate any other act necessary to ensure:
 - a. compliance with policies, plans, procedures, laws and regulations;
 - b. safeguarding of Kentucky Retirement Systems’ assets;
 - c. economic and efficient use of resources;
 - d. accomplishment of established objectives and goals for operations or programs, and;
 - e. to draw attention to any failure to take prompt remedial action relating to previously identified weaknesses.

10. **Audit Methodology**

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

- objectives and scope of the audit to be conducted, prior to the commencement of such audit, and;
- findings and proposed recommendations on the completion of an audit, and where appropriate, to comment.

11. **Audit Reports**

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

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.

12. **Relationship with External Auditors**

The Internal Auditor shall work with the external auditors to:

- foster a cooperative working relationship;
- reduce the incidence of duplication of effort;
- ensure appropriate sharing of information, and;
- ensure coordination of the overall audit effort.

The Internal Auditor shall make available to the external auditors all internal audit working papers, programs, flowcharts, and reports.

13. **Audit Standards**

Internal auditing standards shall be consistent with the *International Standards for the Professional Practice of Internal Auditing*, as published by the Institute of Internal Auditors. Where applicable, the Division of Internal Audit will also have regard to standards and statements issued by other accounting and auditing organizations located within the United States of America. The Division of Internal Audit is expected to abide by the Institute of Internal Auditors *Code of Ethics* (Attachment 1).

14. **Quality Assurance**

In order to ensure that the quality of the internal audit work is consistently at a high standard, the Internal Auditor, in conjunction with the Executive Director and the Audit Committee shall:

- develop and maintain comprehensive work reporting systems;
- maintain a regular review of audit plans, reports and working papers, and;
- provide for training as appropriate.

15. **Approvals**

We, the undersigned of the Kentucky Retirement Systems, do certify that this Charter was approved by the Board of Trustees on this the ____ day of _____, 2007.

Internal Auditor

Executive Director

Chair, Audit Committee

Chair, Board of Trustees

Reviewed by General Counsel

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