Recommendation:

That the Audit Committee review the proposed Internal Audit Charter and the proposed Audit Committee Charter, and recommend them to the Board for approval.

Discussion:

The Board has long held a strategic initiative to establish an internal audit function at LACERS. LACERS Departmental Audit Manager joined the Department in July 2013. At its September 10, 2013 meeting, the Board directed the Departmental Audit Manager to propose and submit to the Audit Committee, a revised Internal Audit Charter and a revised Audit Committee Charter.

Internal Audit Charter

The International Standards for the Professional Practice of Internal Auditing (IIA Standards) require that the purpose, authority, and responsibility of an internal audit function be formally defined in an internal audit charter, and approved by the organization’s board. At its April 11, 2006 meeting, the Board adopted a charter for LACERS’ Internal Audit Section (IAS or Internal Audit). However, since 2006, the IIA Standards (Attachment 1) and the Generally Accepted Governmental Auditing Standards (GAGAS) have been revised. In February 2013, the Association of Public Pension Fund Auditors (APPFA) revised its “Model Internal Audit Department Charter” (Attachment 2) to reflect changes made to GAGAS and IIA Standards. The APPFA “Model Charter” is attached for your reference.

Staff reviewed the 2006 IAS charter and recommends changes, as noted in Attachment 3, to incorporate recent GAGAS and IIA provisions. The most significant recommended change relates to the reporting relationship of the IAS. In the 2006 adopted charter, Internal Audit was structured to report functionally and administratively to the General Manager. The proposed charter reflects current Board’s intent in recommending that Internal Audit reports functionally to the Audit Committee and the Board, and administratively to the General Manager. This reporting relationship enhances objectivity and independence, and is in line with Section 1110 of the IIA Standards related to internal audit’s organizational independence.
Remaining recommended updates mostly pertain to requirement for Internal Audit to disclose potential impairment to the Audit Committee, requirements for annual risk assessment and audit plan, clarification of consulting services, and eliminations of redundancy.

In accordance with professional auditing standards, the updated Internal Audit Charter is intended to formally establish the internal audit function within LACERS, including the nature of its reporting relationship to the Board; define the scope of internal audit activities; and authorize access to records, personnel, and physical properties relevant to the performance of audit engagements.

**Audit Committee Charter**

According to the Board Governance Policies, the Audit and Strategic Committee assists the Board in fulfilling its fiduciary oversight responsibility to members and other stakeholders relating to LACERS’ financial statements, and the legal compliance, ethics programs and other related risks, as established by the Board. On September 10, 2013, the Board adopted staff's recommendation to rename the Audit and Strategic Planning Committee to the Audit Committee (Committee), in order to have a distinct committee that focuses on audits and risk management oversight functions.

Staff has reviewed Committee’s audit functions included in the current Governance Policies Manual, and recommends changes, as noted in Attachment 4. Much like the internal audit charter, recommended changes would align LACERS Audit Committee Charter with IIA standards and APPFA “Model Audit Committee Charter” (Attachment 5). Recommended changes include stating Committee’s specific oversight responsibilities related to LACERS’ financial reporting, risk management, internal controls, compliance with regulations, and internal and external audits.

In accordance with professional auditing standards, IAS will periodically review both internal audit and Audit Committee charters to assess whether changes should be proposed.

**Strategic Impact Statement**

Establishing an internal audit function is in line with the Board Governance Goal to “uphold good governance practices which affirm transparency, accountability and fiduciary duty.” Internal Audit helps management and the Board in meeting this goal by providing an independent and objective assessment of the effectiveness of risk management, internal control, and governance processes.

This report was prepared by Rahool “Wally” Oyewole, Departmental Audit Manager, Internal Audit Section.

**TM:RO**

**Attachments:**
1) International Standards for the Professional Practice of Internal Auditing
2) APPFA “Model Internal Audit Department Charter”
3) Proposed LACERS Internal Audit Charter
4) Proposed LACERS Audit Committee Charter
5) APPFA “Model Audit Committee Charter”
INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)
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# International Standards for the Professional Practice of Internal Auditing (Standards)

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**Introduction to the International Standards**

Internal auditing is conducted in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA’s International Standards for the Professional Practice of Internal Auditing (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity. If internal auditors or the internal audit activity is prohibited by law or regulation from conformance with certain parts of the Standards, conformance with all other parts of the Standards and appropriate disclosures are needed.

If the Standards are used in conjunction with standards issued by other authoritative bodies, internal audit communications may also cite the use of other standards, as appropriate. In such a case, if inconsistencies exist between the Standards and other standards, internal auditors and the internal audit activity must conform with the Standards, and may conform with the other standards if they are more restrictive.

The purpose of the Standards is to:

1. Delineate basic principles that represent the practice of internal auditing.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

The Standards are principles-focused, mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the Statements.

The Standards employ terms that have been given specific meanings that are included in the Glossary. Specifically, the Standards use the word “must” to specify an unconditional requirement and the word “should” where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

It is necessary to consider the Statements and their Interpretations as well as the specific meanings from the Glossary to understand and apply the Standards correctly.

The structure of the Standards is divided between Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. The Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. The Attribute and Performance Standards are also provided to apply to all internal audit services.

Implementation Standards are also provided to expand upon the Attribute and Performance standards, by providing the requirements applicable to assurance (A) or consulting (C) activities.

Assurance services involve the internal auditor’s objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system, or other subject matter. The nature and scope of the assurance engagement are determined by
the internal auditor. There are generally three parties involved in assurance services: (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter — the process owner, (2) the person or group making the assessment — the internal auditor, and (3) the person or group using the assessment — the user.

Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice — the internal auditor, and (2) the person or group seeking and receiving the advice — the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

The Standards apply to individual internal auditors and internal audit activities. All internal auditors are accountable for conforming with the Standards related to individual objectivity, proficiency, and due professional care. In addition, internal auditors are accountable for conforming with the Standards, which are relevant to the performance of their job responsibilities. Chief audit executives are accountable for overall conformance with the Standards.

The review and development of the Standards is an ongoing process. The International Internal Audit Standards Board engages in extensive consultation and discussion prior to issuing the Standards. This includes worldwide solicitation for public comment through the exposure draft process. All exposure drafts are posted on The IIA’s Web site as well as being distributed to all IIA institutes.

Suggestions and comments regarding the Standards can be sent to:

The Institute of Internal Auditors
Standards and Guidance
247 Maitland Avenue
Altamonte Springs, FL 32701-4201, USA

E-mail: guidance@theiia.org
Web: www.globaliia.org

***
Attribute Standards

1000 – Purpose, Authority, and Responsibility
The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:
The internal audit charter is a formal document that defines the internal audit activity’s purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity’s position within the organization, including the nature of the chief audit executive’s functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

1000.A1 – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

1000.C1 – The nature of consulting services must be defined in the internal audit charter.

1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter
The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the Standards must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the Standards with senior management and the board.

1100 – Independence and Objectivity
The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Interpretation:
Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.
Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

1110 – Organizational Independence

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

Interpretation:
Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- Approving the internal audit charter;
- Approving the risk based internal audit plan;
- Approving the internal audit budget and resource plan;
- Receiving communications from the chief audit executive on the internal audit activity’s performance relative to its plan and other matters;
- Approving decisions regarding the appointment and removal of the chief audit executive;
- Approving the remuneration of the chief audit executive; and
- Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

1110.A1 – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

1111 – Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1120 – Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:
Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.
1130 – Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:
Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity’s and the chief audit executive’s responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1 – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2 – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.C1 – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2 – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

1200 – Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 – Proficiency

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Interpretation:
Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

1210.A1 – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.
1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3 – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1 – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 – Due Professional Care
Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1 – Internal auditors must exercise due professional care by considering the:
- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.

1220.A2 – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3 – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1 – Internal auditors must exercise due professional care during a consulting engagement by considering the:
- Needs and expectations of clients, including the nature, timing, and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement’s objectives; and
- Cost of the consulting engagement in relation to potential benefits.
1230 – Continuing Professional Development
Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

1300 – Quality Assurance and Improvement Program
The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Interpretation:
A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity’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 the internal audit activity and identifies opportunities for improvement.

1310 – Requirements of the Quality Assurance and Improvement Program
The quality assurance and improvement program must include both internal and external assessments.

1311 – Internal Assessments
Internal assessments must include:
- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

Interpretation:
Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

Periodic assessments are conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 - External Assessments
External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:
- The form and frequency of external assessment; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.
Interpretation:

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.

1320 – Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

Interpretation:

The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor’s or assessment team’s evaluation with respect to the degree of conformance.

1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”

The chief audit executive may state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the quality assurance and improvement program support this statement.

Interpretation:

The internal audit activity conforms with the Standards when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics, and Standards. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

1322 – Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.
Performance Standards

2000 – Managing the Internal Audit Activity
The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

Interpretation:
*The internal audit activity is effectively managed when:*

- The results of the internal audit activity’s work achieve the purpose and responsibility included in the internal audit charter;
- The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and
- The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

2010 – Planning
The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals.

Interpretation:
*The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organization’s risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization’s business, risks, operations, programs, systems, and controls.*

2010.A1 – The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.A2 – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

2010.C1 – The chief audit executive should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value, and improve the organization’s operations. Accepted engagements must be included in the plan.
International Standards for the Professional Practice of Internal Auditing (Standards)

2020 – Communication and Approval
The chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 – Resource Management
The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Interpretation:
Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.

2040 – Policies and Procedures
The chief audit executive must establish policies and procedures to guide the internal audit activity.

Interpretation:
The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

2050 – Coordination
The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

2060 – Reporting to Senior Management and the Board
The chief audit executive must report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

Interpretation:
The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

2070 – External Service Provider and Organizational Responsibility for Internal Auditing
When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.
Interpretation

This responsibility is demonstrated through the quality assurance and improvement program which assesses conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

2110 – Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.

2110.A2 – The internal audit activity must assess whether the information technology governance of the organization supports the organization’s strategies and objectives.

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor’s assessment that:

- Organizational objectives support and align with the organization’s mission;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the organization’s risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization’s risk management processes and their effectiveness.
Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

2120.A1 – The internal audit activity must evaluate risk exposures relating to the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

2120.C1 – During consulting engagements, internal auditors must address risk consistent with the engagement’s objectives and be alert to the existence of other significant risks.

2120.C2 – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization’s risk management processes.

2120.C3 – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 – Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

2130.C1 – Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization’s control processes.
2200 – Engagement Planning
Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations.

2201 – Planning Considerations
In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity’s governance, risk management, and control processes compared to a relevant framework or model; and
- The opportunities for making significant improvements to the activity’s governance, risk management, and control processes.

2201.A1 – When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1 – Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

2210 – Engagement Objectives
Objectives must be established for each engagement.

2210.A1 – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

2210.A3 – Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the board to develop appropriate evaluation criteria.

2210.C1 – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

2210.C2 – Consulting engagement objectives must be consistent with the organization’s values, strategies, and objectives.
2220 – Engagement Scope
The established scope must be sufficient to achieve the objectives of the engagement.

2220.A1 – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

2220.A2 – If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1 – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2220.C2 – During consulting engagements, internal auditors must address controls consistent with the engagement’s objectives and be alert to significant control issues.

2230 – Engagement Resource Allocation
Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

2240 – Engagement Work Program
Internal auditors must develop and document work programs that achieve the engagement objectives.

2240.A1 – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

2240.C1 – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 – Performing the Engagement
Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.

2310 – Identifying Information
Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement’s objectives.
Interpretation:

Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.

2320 – Analysis and Evaluation
Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 – Documenting Information
Internal auditors must document relevant information to support the conclusions and engagement results.

2330.A1 – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2 – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization’s guidelines and any pertinent regulatory or other requirements.

2330.C1 – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization’s guidelines and any pertinent regulatory or other requirements.

2340 – Engagement Supervision
Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

2400 – Communicating Results
Internal auditors must communicate the results of engagements.

2410 – Criteria for Communicating
Communications must include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans.
2410.A1 - Final communication of engagement results must, where appropriate, contain the internal auditors’ opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:
Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

2410.A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3 – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

2410.C1 – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 – Quality of Communications
Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

Interpretation:
Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

2421 – Errors and Omissions
If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

2430 – Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”
Internal auditors may report that their engagements are “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing”, only if the results of the quality assurance and improvement program support the statement.
2431 – Engagement Disclosure of Nonconformance
When nonconformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose the:
- Principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved;
- Reason(s) for nonconformance; and
- Impact of nonconformance on the engagement and the communicated engagement results.

2440 – Disseminating Results
The chief audit executive must communicate results to the appropriate parties.

Interpretation:
The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

2440.A1 – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2 – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:
- Assess the potential risk to the organization;
- Consult with senior management and/or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

2440.C1 – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2 – During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

2450 – Overall Opinions
When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:
The communication will identify:
- The scope, including the time period to which the opinion pertains;
- Scope limitations;
- Consideration of all related projects including the reliance on other assurance providers;
International Standards for the Professional Practice of Internal Auditing (Standards)

- The risk or control framework or other criteria used as a basis for the overall opinion; and
- The overall opinion, judgment, or conclusion reached.

The reasons for an unfavorable overall opinion must be stated.

2500 – Monitoring Progress
The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1 – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500.C1 – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 – Communicating the Acceptance of Risks
When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Interpretation:
The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.
Glossary

Add Value
The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

Adequate Control
Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization’s risks have been managed effectively and that the organization’s goals and objectives will be achieved efficiently and economically.

Assurance Services
An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Board
The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organization. Typically, this includes an independent group of directors (e.g., a board of directors, a supervisory board, or a board of governors or trustees). If such a group does not exist, the “board” may refer to the head of the organization. “Board” may refer to an audit committee to which the governing body has delegated certain functions.

Charter
The internal audit charter is a formal document that defines the internal audit activity’s purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity’s position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Chief Audit Executive
Chief audit executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title of the chief audit executive may vary across organizations.

Code of Ethics
The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

Compliance
Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.
International Standards for the Professional Practice of Internal Auditing (*Standards*)

Conflict of Interest
Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual’s ability to perform his or her duties and responsibilities objectively.

Consulting Services
Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization’s governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Control
Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment
The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

Control Processes
The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

Engagement
A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives
Broad statements developed by internal auditors that define intended engagement accomplishments.
International Standards for the Professional Practice of Internal Auditing (Standards)

Engagement Opinion
The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

Engagement Work Program
A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider
A person or firm outside of the organization that has special knowledge, skill, and experience in a particular discipline.

Fraud
Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance
The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Impairment
Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

Independence
The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Information Technology Controls
Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure, and people.

Information Technology Governance
Consists of the leadership, organizational structures, and processes that ensure that the enterprise’s information technology supports the organization’s strategies and objectives.

Internal Audit Activity
A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization’s operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
International Professional Practices Framework

The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories — (1) mandatory and (2) strongly recommended.

Must

The Standards use the word “must” to specify an unconditional requirement.

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Overall Opinion

The rating, conclusion, and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management, and/or control processes of the organization. An overall opinion is the professional judgment of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Appetite

The level of risk that an organization is willing to accept.

Risk Management

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization’s objectives.

Should

The Standards use the word “should” where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Standard

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.
Technology-based Audit Techniques

Any automated audit tool, such as generalized audit software, test data generators, computerized audit programs, specialized audit utilities, and computer-assisted audit techniques (CAATs).

***
Model Internal Audit Department Charter

Revised February 2013

Endorsed by:
Association of Public Pension Fund Auditors, Inc.
A Project of the Best Practices Committee
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FOREWORD

The following Model Internal Audit Department Charter (IAD Charter) captures many of the best practices used at the present time, February 2013. This IAD Charter may not encompass all activities that might be appropriate to a particular internal audit department, nor are all activities identified in this IAD Charter relevant to every internal audit department. Accordingly, this IAD Charter should be tailored to each internal audit department's needs and governing rules. Moreover, as applicable laws, rules, and customs change, this IAD Charter should be updated.

Endorsement by the Association of Public Pension Fund Auditors, Inc. (APPFA) means that the document is intended as a starting point of reference and as a guide to public pension funds in developing and/or revising their internal audit department charters. To the extent that a public pension fund has unique circumstances, different applications and modifications of the example passages may be desirable.

The first version of this publication was completed in August 2004 and was updated in February 2013. The update was completed by the following members of the APPFA Best Practices Committee:

Flerida Rivera-Alsing, Chair  State Board of Administration of Florida
Ryan Babin  Louisiana State Employees Retirement System
Jenine Gregory  Ontario Municipal Employees Retirement System
Janet Harris  Public School Retirement System of Missouri
Amen Tam  Ontario Municipal Employees Retirement System
Toni Voglino  Maryland State Retirement and Pension System

The February 2013 version of this publication was approved by the APPFA Board in May 2013.
I. MISSION

The mission of the Internal Audit Department (IAD) is to provide independent, objective assurance, and consulting services designed to add value and improve the organization's operations. The IAD helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes. The IAD:

- Provides a wide range of quality independent internal auditing services for the Audit Committee and executive management and consulting services for management.
- Performs independent assessments of the systems of risk management, internal controls and operating efficiency, guided by professional standards and using innovative approaches.
- Supports the organization’s efforts to achieve its objectives through independent assurance and consulting services.
- Maintains a dynamic, team-oriented environment that encourages personal and professional growth, and challenges and rewards internal audit staff for excellence and reaching their full potential.

1 Source: International Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors, Inc.
II. OBJECTIVES AND SCOPE

A. Assurance Objectives

The objectives of the IAD’s assurance services are to provide independent assurance to the Board of Trustees (Board), Audit Committee, and management that the organization’s assets are safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws, and the organization’s policies. Assurance objectives include independent assessment of the organization’s governance, risk management, and control processes.

B. Consulting Objectives

The objectives of the IAD’s consulting services, the nature and scope are agreed with management, are to provide assessments and advice for improving the organization’s governance, risk management, and control without the IAD assuming management responsibility. In particular, the consulting objectives are to provide assessments and advice at the beginning of a project so that risks may be identified, managed, and internal controls may be designed adequately.

C. Scope

The scope of work of the IAD is to determine whether the organization’s network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning to ensure:

- Programs are operating within fiduciary standards and are in compliance with laws, regulations, ordinances, policies, and procedures.
- Risks are appropriately identified and managed.
- Programs and processes are consistent with industry best practices, using the best public and private examples as benchmarks.
- Operations, processes, and programs are consistent with established missions, objectives and goals and whether they are being carried out as planned.
- Existing policies and procedures are appropriate and updated.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Resources are acquired economically, used efficiently, and adequately protected.
• Quality and continuous improvement are fostered in the organization’s control process.

• Employers appropriately enroll employees, accurately report employee earnings, and appropriately report other employee data.

• Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

Opportunities for improving member service, management of risks, internal control, governance, and the organization’s effectiveness and image may be identified during audits. This information will be communicated to the Audit Committee and to appropriate levels of management.
III. AUTHORITY

The internal audit function of this organization is established by state statutes XXXX, and enabled by regulations YYYY. The IAD is established by this organization pursuant to these applicable laws and regulations, customs of corporate governance, and best practices. This IAD Charter and all future amendments are to be approved by the Audit Committee through a majority vote. This IAD Charter shall be reviewed at least annually and updated as necessary.

The Chief Audit Executive (CAE) reports functionally to the Audit Committee and reports administratively to the Chief Executive Officer (CEO). The CAE is hired, evaluated, retained, and terminated by the Audit Committee. The Audit Committee will seek input from the CEO in making its selection.

The CAE is delegated the authority to manage the IAD. The CAE is authorized to allocate resources, set project frequencies, select audit subjects, determine scope of work, and apply the techniques necessary to accomplish the audit objectives. The CAE is authorized to hire, retain, train, and terminate internal audit staff, when necessary, to achieve the objectives of the IAD.

The CAE and internal audit staff are not authorized to perform operational duties for the organization and/or its affiliates and contractors. IAD staff is not authorized to:

- Initiate or approve accounting transactions external to the IAD.
- Direct the activities of any organization employee not employed by the IAD, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.
IV. ACCESS

The CAE and designated audit staff, as appropriate, shall have full, free, and unrestricted access to all of the organizations’ functions, records, files and information systems, personnel, contractors, physical properties, rental locations, and any other item relevant to the function, process, or department under review. All contracts with vendors shall contain the organization’s standard audit language enabling the organization’s internal auditors, other auditors and specialists to have access to relevant records and information. All of the employees of the organization are required to assist the staff of the IAD in fulfilling their function.

The CAE shall have free and unrestricted access to the Chair, members of the Audit Committee, and Board of Trustees. The CAE shall also have free and unrestricted access to the CEO, other executives, management, all personnel, contractors, vendors, employers, members, retirees and beneficiaries of the organization.

Documents and information given to the IAD shall be handled in the same prudent and confidential manner as by those employees normally accountable for them. The CAE shall ensure that internal audit staff is adequately coached in the handling and safeguarding of confidential information.
V. INDEPENDENCE

A. Organizational Placement

To provide for the independence of the IAD, its personnel report to the CAE, who in turn reports functionally to the Audit Committee and administratively to the CEO. The CAE shall freely discuss audit policies, audit findings and recommendations, audit follow-up, issues, and other matters as necessary.

B. Professional Standards of Independence

The Audit Committee recognizes that professional independence requires that the internal auditors have knowledge of operations and appropriate expertise in the subject matter that is being audited. Therefore, the CAE will report to the Audit Committee the qualifications, certifications, and training requirements of the internal audit staff. The CAE shall periodically discuss standards of professional audit independence with the Audit Committee. The standards of independence used as benchmarks will be those of the organizations mentioned in Section VII of this document.

C. Impairment of Independence

The CAE should discuss any potential issues regarding impairment of independence and/or conflicts of interest and their mitigation(s) with the Audit Committee, as necessary. If objectivity or independence is impaired in fact or appearance, the details of the impairment should be disclosed to the appropriate parties. The nature of the disclosure will depend on the impairment. The IAD should annually certify to the Audit Committee they have no actual or perceived conflicts of interest that would impair their objectivity or independence.
VI. RESPONSIBILITIES AND ACCOUNTABILITY

The CAE is responsible for the following in order to meet the mission, objectives, and scope of this Charter and the IAD.

1. Select, train, develop, and retain a competent internal audit staff who collectively has the abilities, knowledge, skills, experience, expertise and professional certifications necessary to accomplish the mission, objectives and scope of this Charter. Provide opportunity and support for staff obtaining professional training, examinations, and certifications.

2. Establish policies for conducting IAD activities according to the organization’s policies, direction provided by the Audit Committee, and professional standards described in Section VII.

3. Perform an annual risk assessment. Develop and implement a flexible annual audit plan (audit plan) using an appropriate risk-based methodology, including any risks or concerns identified by management, and submit the audit plan to the Audit Committee for review and approval. The audit plan will include some unassigned hours in order to provide flexibility for changing conditions. Performance of the audit plan will be periodically reviewed and reported to the Audit Committee. The audit plan may be updated, if necessary.

4. Prepare a budget that is complementary to the implementation of the audit plan.

5. Perform independent analyses of significant operations to evaluate the adequacy and effectiveness of existing systems of internal control and the quality of performance (economy, efficiency, and effectiveness) in carrying out its business objectives.

6. Establish and maintain a follow-up system to monitor the disposition of results communicated to management and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

7. Issue periodic reports to the Audit Committee and management summarizing results of assurance and consulting services. Any management letters issued should also be reported to the Audit Committee.

8. Assess periodically whether the purpose, authority, and responsibility, as defined in this IAD Charter, continue to be adequate to enable the IAD to accomplish its mission, objectives, and scope. The result of this periodic assessment should be communicated to the Audit Committee and the CEO.
9. Implement a quality assurance and improvement program. Obtain an external assessment no less frequently than every five years [International Standards for the Professional Practice of Internal Auditing] or every three years [Generally Accepted Government Auditing Standards], as appropriate. Conduct periodic internal quality assurance and ongoing quality procedures. Results of the quality assurance and improvement program should be reported to the Audit Committee.

10. Lead/participate in the selection of external audit firms. Coordinate/manage the contract(s) with any external audit firms and evaluate their performance. Report to the Audit Committee on all activities and associated cost of work performed by the external audit firms.

11. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

12. Act as the primary point of contact for handling all matters related to audits, examinations, investigations or inquiries of the state auditor or other appropriate state or federal auditors.

13. As appropriate, provide consulting services to management that add value and improve the organization’s governance, risk management, and control processes without assuming management responsibility.

14. Assist in the investigation of suspected fraudulent activities within the organization and notify the Audit Committee, the CEO and other Executives, as appropriate, of the results.

15. Inform the Audit Committee of significant risk exposures and control issues including fraud risks, governance issues and other significant matters.

16. Inform the Audit Committee of emerging trends and successful practices in internal auditing.

17. Attend all Audit Committee meetings, and ensure attendance of additional audit staff and auditees, as appropriate.
VII. PROFESSIONAL STANDARDS & GUIDANCE

The IAD shall follow the professional standards of relevant professional organizations. The IAD should consider professional guidance published by these organizations. These professional standards and guidance include, but are not limited to, the following:

- The Institute of Internal Auditors mandatory guidance which includes the International Standards for the Professional Practice of Internal Auditing, Code of Ethics, and Definition of Internal Auditing. The current versions of these documents are part of this IAD Charter and are appended thereto.

- IS Auditing Standards, Guidelines, and Procedures, and the Code of Professional Ethics of the ISACA. The Control Objectives for Information Technology will be used as a reference. The current versions of these documents are part of this Charter and are appended thereto.

- Professional Standards and Code of Ethics of the American Institute of Certified Public Accountants, as applicable.

- Generally Accepted Government Auditing Standards from the United States General Accountability Office, as applicable.

- Public Company Accounting Oversight Board (PCAOB) auditing standards, as applicable.

- Other professional standards, such as those of the Institute of Management Accountants (IMA) and the Association of Certified Fraud Examiners (ACFE), as applicable.

- Other professional guidance such as The Institute of Internal Auditors Practice Advisories, Practice Guides, and Position Papers.
VIII. RELATIONSHIP TO RISK MANAGEMENT AND INTERNAL CONTROL PROGRAMS

The Board has overall responsibility for ensuring that risks are managed. In practice, the Board delegates to management the operation and implementation of the risk management system. The IAD’s role is to provide an independent and objective assurance on the effectiveness of the risk management system.

Management is responsible for implementing a system of internal control. The IAD’s role is to provide an independent and objective assurance that the internal control system is operating effectively.
IX. PROCUREMENT OF OUTSIDE EXPERTISE

The CAE may occasionally need to obtain the expertise of persons outside of the IAD. When the CAE intends to use and rely on the work of a person outside the IAD, the CAE needs to consider the competence, independence, and objectivity of the person.

Expertise may be obtained within the organization through appropriate arrangements with management. When obtaining this expertise within the organization, care must be taken to avoid conflicts of interest that could damage the quality of the audit work performed and/or conclusions obtained.

Expertise may also be obtained from outside the organization. In such cases, the CAE needs to obtain sufficient information regarding the scope of work of the external service provider to ensure the scope of work is adequate for the purposes of the internal audit activity. The CAE must document the scope of work, professional standards to be used, deliverables, deadlines, and other matters in an engagement letter or contract. The Audit Committee should be informed about the use of an external service provider.
XI. SIGNATURE PAGE

This IAD Charter was adopted by the Audit Committee on (date), and approved by the Board. This IAD Charter is effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

<table>
<thead>
<tr>
<th>Chair, Audit Committee</th>
<th>Date</th>
<th>Chair, Board of Trustees</th>
<th>Date</th>
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<tbody>
<tr>
<td>Chief Audit Executive</td>
<td>Date</td>
<td>Chief Executive Officer</td>
<td>Date</td>
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</tbody>
</table>
REFERENCES

The Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

The Institute of Internal Auditors’ Model Internal Audit Activity Charter.

IIA Position Paper: The Role of Internal Auditing in Enterprise-Wide Risk Management.

Internal Audit Charter of the various public pension fund systems who are members of APPFA.
INTERNAL AUDIT CHARTER

INTERNAL AUDIT SECTION CHARTER

I. PURPOSE

The purpose of this Charter is to formally define LACERS' internal audit function's purpose, authority, and responsibility. The internal audit charter establishes the internal audit function's position within LACERS including the nature of the Departmental Audit Manager's (DAM) functional reporting relationship with the Board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. This Charter shall be reviewed annually and updated as necessary.

assist LACERS' internal auditors in fulfilling its mission and fiduciary responsibilities under the oversight of the General Manager and the Audit and Strategic Planning Committee or any successor committee (hereinafter referred to as Committee)

II. MISSION

The Mission of the Internal Audit Section is to provide independent, objective assurance, and consulting services designed to add value and improve LACERS' operations. It is to assist LACERS in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes by:

- Providing a wide range of quality, independent internal auditing services for the Executive General Management and the Board, Committee and consulting services for management;
- Performing independent assessments of the risk management systems, internal controls, and operating efficiency, guided by professional standards and using innovative approaches;
- Supporting LACERS' efforts to achieve its objectives through independent auditing and consulting services; and
- Maintaining a dynamic, team-oriented environment that encourages personal and professional growth, and challenges and rewards internal audit staff for reaching its full potential and excelling.

III. OBJECTIVES AND SCOPE

Assurance auditing Objectives: The objectives of the Internal Audit Section's assurance auditing services are to provide independent assurance to the General Manager and Board, the Audit Committee, and LACERS' Executive Management that LACERS' assets are safeguarded, operating efficiency is enhanced, and compliance is
INTERNAL AUDIT CHARTER

Assurance objectives of auditing services include independent assessment of LACERS’ governance, risk awareness and management, and control processes, the reliability and integrity of LACERS’ data, and achievement of LACERS’ goals and objectives.

Consulting and Advisory Objectives: The objectives of the Internal Audit Section’s consulting and advisory services, the nature and scope of which are agreed with management, are to provide management with assessments and advice for improving LACERS’ governance, risk management and control without the Internal Audit Section assuming management responsibility, processes that will advance the goals and objectives of the organization. For example, in particular, consulting services may be focused on ensuring that risks can be identified, managed, and internal controls can be designed.

Scope: The scope of work of the Internal Audit Section is to determine whether LACERS’ network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Programs are operating within the highest fiduciary standards and are directed toward the requirements defined in Federal and State law, the Charter of the City of Los Angeles, the Administrative Code of the City of Los Angeles, Board Rules, and LACERS’ policies and procedures;
- Processes and practices are in synchrony with industry best practices;
- Significant legislative and regulatory issues impacting LACERS are recognized and addressed appropriately;
- Operations and processes are consistent with established missions, objectives, and goals;
- Operations and processes are being carried out as planned;
- Existing policies are appropriate and updated;
- Risks within and outside of LACERS are appropriately identified and managed;
- Employee data is appropriately reported to LACERS;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Resources are acquired economically, used efficiently, and adequately protected;
- Quality service and continuous improvement are fostered in LACERS control processes;
- Contractors are meeting the objectives of the contracts, while in conformance with applicable laws, regulations, policies, procedures, and best practices;
- Access for auditors is provided, as appropriate; and
- Specific programs, operations, and processes are reviewed at the request of
INTERNAL AUDIT CHARTER

management or the Board Committee.

Opportunities for improving member service, management of risks, internal control, governance, and the organization's effectiveness and image may be identified during audits. This information will be communicated to management and the Audit Committee, as appropriate.

IV. AUTHORITY

This Charter establishes LACERS' internal audit function. The Internal Audit function reports functionally to the Board through its Audit Committee, and administratively to the General Manager. Despite this formal reporting relationship with the General Manager, the head of the Internal Audit Section is encouraged to meet directly with the Chair of the Committee or the President of LACERS' Board of Administration regarding any matter the head of the Internal Audit Section deems appropriate. The Departmental Audit Manager (DAM) head of the Internal Audit Section is hired, evaluated, retained, and terminated by the General Manager with inputs from the Audit Committee. The General Manager shall seek input from the Committee prior to making a hiring selection.

The head of the Internal Audit Section DAM is responsible for managing the Internal Audit Section and preparing an audit plan delegated the authority to operate the internal audit program. The Audit Committee reviews and retains the right to recommend the annual audit plan to the Board. The DAM head of the Internal Audit Section shall periodically inform the Audit Committee regarding the status of the audit plan and changes needed. The DAM head of the Internal Audit Section is authorized to allocate internal audit resources, set project frequencies, select audit subjects, determine scopes of work, and apply the necessary techniques to accomplish the audit objectives. The DAM head of the Internal Audit Section is authorized to hire (within any budgetary constraints), retain, train, and develop internal audit staff to achieve the internal audit objectives as stated in this Charter.

The head of the Internal Audit Section and the other internal audit staff are not authorized to perform operational duties for LACERS and/or its contractors. LACERS internal audit staff is not authorized to initiate or approve accounting transactions external to the Internal Audit Section. Internal Audit Section staff is not authorized to direct the activities of any LACERS employee not employed in the Internal Audit Section, except to the extent such employees have been assigned appropriately to auditing teams or to otherwise assist the internal auditors.

V. ACCESS

The head of the Internal Audit Section DAM and designated audit staff, as appropriate, are granted authority for full, free, and unrestricted access to all of LACERS' functions, records, files and information systems, personnel, contractors, physical properties, and

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INTERNAL AUDIT CHARTER

any other item relevant to the function, process, or unit under review. All LACERS' contracts with vendors shall contain language enabling the internal auditors and other auditors and specialists to have access to relevant records and information. All LACERS employees are required to assist the staff of the Internal Audit Section in fulfilling its audit functions and fiduciary duties.

The head of the Internal Audit Section shall have free and unrestricted access to the Chairperson of the Audit Committee, and the President, Vice President, and Members of the Board of Administration. The head of the Internal Audit Section also shall have free and unrestricted access to the General Manager, the other executives and all personnel, contractors and vendors, members, retirees, and beneficiaries of LACERS.

Staff of the Internal Audit Section shall handle documents and information given to them in the same prudent and confidential manner as they are handled by those employees normally accountable for them. The head of Internal Audit shall ensure that the internal audit staff is instructed in the handling and safeguarding of confidential information.

VI. INDEPENDENCE

Organizational Placement: To provide for the independence for the Internal Audit Section, its personnel report to the head of the Internal Audit Section, who in turn reports functionally to the Board and administratively to the General Manager, in the manner outlined in the above section regarding Authority. By reporting functionally to the Board, the DAM is able to maintain independence and objectivity in planning and executing internal audit activities. The Board supports internal audit’s role by maintaining internal audit’s independence, and by recognizing and promoting internal audit as a value-added activity.

Professional Standards Independence: The Audit Committee recognizes that professional independence requires that the auditors have knowledge of operations and appropriate expertise in the subject matter that is being audited. Therefore, the head of the Internal Audit Section will include as part of the reports to the Audit Committee, a regular report regarding internal audit personnel, including their qualifications, certifications, and development. The head of the Internal Audit Section shall periodically discuss standards of professional audit independence with the Audit Committee. The standards of independence used as benchmarks shall be those indicated in the Professional Standards section of this document. The reporting relationships of the head of the Internal Audit Section should be reviewed periodically.

Potential Impairment of Independence: The head of the Internal Audit Section should discuss any potential issues regarding impairment of independence and/or conflicts of interest and their mitigation(s) with the General Manager or Audit

Comment [RWO6]: Added to conform with IIA standard on ideal reporting relationship that enhances independence and objectivity.

Comment [RWO7]: Deleted. As indicated in comment #5, to enhance independence, functional reporting relationship to the Board should be maintained.
INTERNAL AUDIT CHARTER

Committee, as appropriate necessary. If objectivity is impaired in fact or in appearance, the details of the impairment should be disclosed to the appropriate parties. The nature of the disclosure will depend on the impairment. Internal Audit Section should annually certify to the Audit Committee that they have no actual or perceived conflicts of interest that would impair their objectivity or independence.

VII. RESPONSIBILITIES AND ACCOUNTABILITY

The head of the Internal Audit Section (DAM) is responsible for the following in order to meet the mission, objectives, and scope of this Charter and the Internal Audit Section:

1. Select, train, develop, and retain a competent internal audit staff who collectively have the abilities, knowledge, skills, experience, expertise, and professional certifications necessary to accomplish the mission, objectives, and scope of this Charter, subject to General Manager’s approval and budgetary considerations. Provide opportunity and support for staff obtaining professional training, professional examinations, and professional certifications.

2. Establish policies for conducting and directing internal audit activities, and directing the Internal Audit Section’s technical and administrative functions according to LACERS’ policies and direction provided by the Audit Committee and the Committee and General Manager Board, and professional standards described in Section VIII.

3. Conduct an annual risk assessment. Develop and implement a flexible annual audit plan using an appropriate risk-based methodology, including any risks or concerns identified by management, and submit the audit plan to the Audit Committee and the Board for review and approval.

4. Implement the approved annual audit plan, including as appropriate, any plan amendments, special tasks, or projects requested by management and/or the Board. Performance of the audit plan will be periodically reviewed and reported to the Audit Committee. The audit plan may be updated, if necessary, and produce a flexible audit plan that will accomplish the mission, objectives, and scope of this Charter. This plan will include some unassigned hours in order to provide flexibility for changing conditions. This plan shall, in part, be based upon risks and control concerns identified by management. This plan will be updated periodically, as necessary.

5. Prepare a budget request package that is complementary to the implementation of the audit plan.

6. Perform independent analyses of significant operations to evaluate the adequacy and effectiveness of existing systems of internal control and the quality of performance (economy, efficiency, and effectiveness) in carrying out...
INTERNAL AUDIT CHARTER

LACERS’ business objectives. Implement the approved annual audit plan, including as appropriate, any plan amendments, special tasks, or projects requested by management and/or the Committee.

6. Coordinate with audit clients to finalize recommendations for improvement and identify implementation timelines. Internal audit staff shall consider costs and benefits while formulating and discussing its recommendations.

7. Perform a periodic comprehensive evaluation of risk management and internal controls performed by management, described in Section IX, pursuant to applicable laws and/or policies. Assist management with internal control assessments.

8. Evaluate and assess new or changing services, processes, operations, and control processes coincident with their development and/or implementation.

9. Transmit copies of all audit reports containing material findings to the Audit Committee along with management response.

10. Issue periodic reports to management and the Audit Committee summarizing results of audit activities and the status of follow-up activities. Any management letters issued should also be reported to the Audit Committee.

Provide periodic summaries of consulting and advisory activities to management.

12. Select performance measures that reflect the above goals and implementation of the audit plan approved by Inform the Audit Committee of significant risk exposures and control issues including fraud risks, governance issues, and other significant matters.

13. At least every three years, Assess periodically whether the purpose, authority, and responsibility, as defined in this Charter, continue to be adequate to enable the Internal Audit Section to accomplish its mission, objectives, and

Comment [RWO12]: Deleted. Original language was added to comply with Sarbanes-Oxley Act. Does not apply to public pension internal audits.

Comment [RWO13]: Follow up program is required by IIA Standard # 2500-A1. Added the responsibility as required, and to be consistent with APPFA’s 2013 Internal Audit Model Charter.

Comment [RWO14]: Deleted. Already addressed by the new language added for #22. Consistent with APPFA’s 2013 Internal Audit Model Charter.


Comment [RWO16]: Modified to reflect a responsibility to inform the AC about significant exposures, in consistent with IIA guidelines and APPFA’s 2013 Internal Audit Model Charter.
INTERNAL AUDIT CHARTER

14.13. Attend all Audit Committee meetings and ensure the attendance of additional audit staff and attendance by auditees as appropriate.

15.14. Obtain a peer review by other internal auditors as required by professional standards, no less frequently than every 5 years (Institute of Internal Auditors standard).

16.15. Inform the Audit Committee of emerging trends and successful practices in internal auditing.

17.16. Assist in the investigation of significant suspected fraudulent activities within LACERS the organization and notify the General Manager, and the Audit Committee, and other executives, as appropriate, of the results.

18.17. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to LACERS at a reasonable overall cost.

19. Lead in the process for selecting the external financial statement auditor. Coordinate/Manage the contract(s) with any external audit firms and evaluate their performance. Report to the Audit Committee on all activities and associated cost of work performed by the external audit firms.

20. Serve as liaison to the external financial statement auditor.

21.20. Consult with LACERS management, as requested, regarding potential policy and procedure changes.

22. Participate in an advisory capacity, in the planning, design, development, implementation, and modification phases of major information related systems to determine whether as appropriate, provide consulting services to management that add value and improve the organization’s governance, risk management, and control processes without assuming management responsibility.

21.

23.
INTERNAL AUDIT CHARTER

24. Adequate controls are implemented in the systems;
25. Adequate risk management techniques have been utilized;
26. Thorough system testing is performed at appropriate stages;
27. System documentation is complete and accurate; and
28. The intended purposes and objectives of the system implementation or modification have been met.

29. Participate in professional audit organizations by attending meetings, joining the governing boards, presenting speeches and papers, and networking with other professionals. Network with internal audit staff of other public pension systems to learn and exchange best practices information. Participate in other professional organizations related to LACERS’ mission. These may include, but are not limited to, organizations involved with benefits, investments, and accounting.

30. Act as the primary point of contact for handling all matters related to audits, examinations, investigations, or inquiries by other City entities, or State or Federal agencies. Keep the Audit Committee and/or the General Manager informed as appropriate.

31. Periodically review LACERS’ fraud and ethics policies.

32. Periodically review LACERS’ fraud and ethics policies.

VIII. PROFESSIONAL STANDARDS

The Internal Audit Section shall adhere to the International Standards for the Professional Practice of Internal Auditing (ISPPIA) and to the Code of Ethics, both as promulgated by the Institute of Internal Auditors (IIA), current version of which is attached to this Internal Audit Charter. The Internal Audit Section shall also obtain guidance from follow the professional standards of other relevant professional organizations. These professional standards include:

- International Standards for the Professional Practice of Internal Auditing (ISPPIA) and the Code of Ethics of the Institute of Internal Auditors (IIA);
- Information Systems Auditing Standards, Guidelines, and Procedures, and the Code of Professional Ethics of the Information Systems Audit and Control Association (ISACA);
- Public Company Accounting Oversight Board (PCAOB) auditing.
INTERNAL AUDIT CHARTER

standards, as applicable;

- American Institute of Certified Public Accountants (AICPA) Professional Standards and Code of Ethics, as applicable;
- Generally Accepted Government Auditing Standards (GAGAS) from the United States General Accounting Office (GAO), as applicable; and
- Other professional standards, such as those of the Institute of Management Accountants (IMA) and the Association of Certified Fraud Examiners (ACFE), as applicable.

IX. RELATIONSHIP TO THE RISK MANAGEMENT AND INTERNAL CONTROL PROGRAMS

The Board has overall responsibility for ensuring that risks are managed. In practice, the Board delegates to management the operation and implementation of the risk management system. The Internal Audit Section’s role is to provide an independent and objective assurance on the effectiveness of the risk management system. Management is responsible for implementing the system of risk management. The Internal Audit Section will aid management by evaluating risk management during each audit and through consulting activities. The Internal Audit Section periodically will conduct an enterprise risk assessment with the goal of formulating an audit plan. Information gathered during the enterprise risk assessment may be shared with management.

Management is responsible for implementing the system of internal control. The Internal Audit Section is responsible to provide an independent and objective assurance that the internal control system is operating effectively. This will aid management by evaluating internal controls during each audit and by periodically evaluating the entire system of internal controls.

X. PROCUREMENT

The head of the Internal Audit Section DAM occasionally may need to obtain expertise of persons inside and outside of the Internal Audit Section LACERS. This expertise may be obtained within LACERS through appropriate arrangements with management. When obtaining this expertise, care must be taken to avoid conflicts of interest within the organization LACERS that could damage the quality of the audit work performed and/or conclusions obtained.

Expertise may also be obtained from outside LACERS through contracts. In such cases, the DAM needs to obtain sufficient information regarding the scope of work of the external service provider to ensure the scope of work is adequate for the purposes of the internal audit activity. The DAM must document the scope of work, professional standards to be used, deliverables, deadlines, and other matters in an engagement letter or contract. The Audit Committee should be informed of the use of an external service provider, the contract should contain appropriate provisions regarding the nature of the services provided and professional standards to be applied. The General Comment [RWO21]: Modified to be consistent with revised IIA Standards (on Board and management’s responsibility for adequate internal controls) and APPFA’s 2013 Internal Audit Model Charter.
INTERNAL AUDIT CHARTER

Manager shall approve all contracts with external consultants.

XI. RELATIONSHIP TO PREVENTION, DETECTION, AND CORRECTION ACTIVITIES

Because LACERS recognizes that it is more expensive to detect and correct problems after the fact than it is to prevent them in the initial stages of a project, the Internal Audit Section will strive to participate in the initial stages of major projects so that risks can be managed appropriately and internal controls instituted in the design phase in order to prevent problems and minimize costs.

Date Adopted ____________________

Comment [RWO22]: Modified to be consistent with APPFA’s 2013 Internal Audit Model Charter, and GAGAS language on the use of outside auditors.
Audit and Strategic Planning Committee Charter

I. PURPOSE

The Committee will provide assistance to the Board in fulfilling its fiduciary oversight responsibility to the participants, the City of Los Angeles, the investment community, and others relating to LACERS’ financial statements, and the legal compliance, ethics programs and other related risks, as established by the Board. In so doing, it is the responsibility of the Committee, with approval of the Board, to maintain free and open communication between the Committee, independent auditors, the internal auditors, if any, and management of LACERS. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with access to all books, records, facilities, and personnel of LACERS.

II. AUTHORITY

The Committee has the authority to direct the Departmental Audit Manager (DAM), external auditors, or consultants to conduct an audit, review, and/or investigation into any matters within the Committee’s scope of responsibility. It is empowered to:

- Seek any information it requires from LACERS staff or external parties, all of whom are directed by the Board to cooperate with the Committee’s request.
- Appoint, compensate, and oversee the work of all public accounting firms employed by LACERS.
- Resolve any disagreements between LACERS management and the internal or external auditors regarding financial reporting, actuarial audits, or other related matters.
- Retain independent counsel, accountants, or others to advise or assist the Committee in the performance of its responsibilities.
- Approve the consultants, or others retained by the organization to assist in the conduct of an audit, review, and/or a special investigation.
- Meet with management, external and internal auditors, or outside counsel as necessary.

III. MEETINGS

The Committee shall meet no less than four times during the calendar year, or more often as needed. Meetings will be conducted in accordance with open meeting and other applicable laws. Meeting agendas, along with appropriate briefing materials, will be prepared and provided in advance to Committee members and other required attendees. Minutes of the meeting will be prepared and approved by the Committee.
Meeting notices, agendas, and materials will be provided to interested parties in conformance with applicable laws, regulations, customs, and practices. The Committee may invite members of management, external auditors, internal auditors, or other third parties, to attend meetings and provide pertinent information, as the Committee deems appropriate to carry out its responsibilities. The DAM shall support the Committee’s activities and ensure appropriate staff and others are available to assist it. The DAM shall review minutes, draft reports, perform research, and render other types of assistance as reasonably requested by the Committee.

IV. RESPONSIBILITIES

I. RESPONSIBILITIES AND PROCESSES

The primary responsibility of the Committee is to oversee LACERS’ financial reporting process on behalf of the Board and to report the results of its activities to the Board. Management is responsible for preparing LACERS’ financial statements, and the independent auditors are responsible for auditing those financial statements. The Committee is responsible for understanding risks affecting LACERS’ operations and monitoring how management implements controls to minimize those risks.

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible in order to best react to changing conditions and circumstances. The Committee will take the appropriate actions to set the overall “tone” for quality financial reporting, sound business risk practices, and ethical behavior.

The following are specific responsibilities with respect to LACERS’ financial statements, internal controls, internal and external auditors, and compliance with laws and regulations, will be the principal recurring process of the Committee in carrying out its oversight responsibilities. The processes are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

A. Financial Reporting

- Review significant accounting and reporting issues, including complex or unusual transactions, 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, significant adjustments or revisions to the financial statements, including any difficulties encountered.
AUDIT COMMITTEE CHARTER

- 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.

- Review LACERS’ annual financial statements and any financial reports related to LACERS submitted to any governmental body; consider whether they are complete, consistent with information known to the Committee, 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 generally accepted auditing standards.

- Review with the City Attorney-Retirement Division the status of legal matters that may have an effect on the financial statements.

- Review, in consultation with the external auditors and the DAM, the integrity of the organization’s financial reporting processes.

A.

B. Risk Control and Management Responsibilities

- Review the adequacy of policies and practices designed to avoid or mitigate risks related to benefits administration, investments, and general operations.

- Review the effectiveness of the LACERS’ system for assessing, monitoring, and controlling significant risks or exposures.

- The Committee will review the interim financial statements with management quarterly, or as deemed necessary by the Committee.

The Committee will review LACERS proposed annual budget presented by staff and submit to the Board for approval before June 30th of each year.

- The Committee will review LACERS systems of internal accounting and financial controls whenever a significant change occurs.

- The Committee will review controls over LACERS’ information systems, including security access and program change controls as well as contingency plans on an annual basis.
AUDIT COMMITTEE CHARTER

- The Committee will review annually the internal control reports of LACERS custodian (Service Organization Control AS 70 Report) and of the City of Los Angeles management letter.

- The Committee will review and forward to the Board all internal and external auditors’ significant findings and recommendations, together with reports and the management response. The Committee shall forward a separate report of the review when forwarding the report to the Board.

- Analyze the staff recommendations for retention of actuarial audit services or other specialized audit services and make recommendations to the Board.

C. Internal Control

- Consider the effectiveness of the LACERS’ internal control system, including information technology security and control.

- Understand the scope of internal and external auditors’ review of LACERS’ internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management’s responses.

D. Internal Audit

- Approve the LACERS’ internal audit charter, and any revisions to the charter as needed.

- Advise on the appointment, replacement, or dismissal of the DAM as desired by the General Manager as appointing authority.

- Review and recommend to the Board, the approval of a risk-based internal annual audit plan and all major changes to the plan. Review the internal audit activity’s performance relative to its plan.

- Ensure that internal auditors have full, free, and unrestricted access to all functions, documents, information, systems, contractors, consultants, and LACERS’ personnel.

- Bring to the attention of the Board any audit issues the Committee determines significant and appropriate for consideration by the Board.

- Obtain and review the quality assurance report for the Internal Audit Section at least once every five years. Review for any concerns noted.

- Delegate to the DAM the oversight and management of the contracts of all public accounting firms hired by LACERS.

Comment [RW08]: Added specific internal control responsibilities to align with APFFA and IIA Model AC charters

Comment [RW09]: Added specific internal audit responsibilities to align with APFFA and IIA Model AC charters
AUDIT COMMITTEE CHARTER

- Designate the DAM as the primary point of contact for handling all matters related to audits, examinations, investigations or inquiries of City Controller auditors, state and other federal agencies. The DAM will keep the Committee and/or the General Manager informed as appropriate.

External Audit Responsibilities

E. Engagement of External Auditors

- Obtain The Committee will have a clear understanding with management that the independent auditors are ultimately accountable to the Board and the Committee as representatives of LACERS participants. When As appropriate, the Committee will recommend to the Board, the approval of the appointment, retention, or discharge of the external auditors. Obtain input from the DAM, management, and other parties as appropriate.

- Approve all audit and non-audit services to be performed by the external auditors.

- Review will recommend to the Board the issuance of an RFP for an independent auditor. The Committee will evaluate proposals received and shall recommend to the Board the Committee’s selection of LACERS independent auditors.

- The Committee shall discuss with the independent auditors’ proposed overall scope and approach, including coordination of efforts with internal audit plans for their audits. Also, the Committee shall discuss with management and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including LACERS system to monitor and manage business risk and legal and ethical compliance programs.

- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and LACERS, including non-audit services, and discussing the relationships with the auditors.

- Provide guidelines and mechanisms so that no Committee member or LACERS’ staff shall improperly influence the external auditors.

- The Committee shall review with management and the independent auditor the financial statements of LACERS Comprehensive Annual Financial Report.
F. Compliance

- Review the effectiveness of the LACERS’ system for monitoring compliance with laws, regulations, contracts, and policies, and the results of management’s investigation and follow-up (including disciplinary action) of any instances of noncompliance.

- Review the findings of any examinations by regulatory agencies, 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 the City Attorney’s Retirement Division regarding compliance matters.

G. Other Responsibilities

- Regularly report to the Board about Committee activities, issues, and related recommendations.

- Provide an open avenue of communication between internal auditors, the external auditors, and the Board.

- Review any other reports the LACERS issues that relate to Committee responsibilities.

Charter Review

The Committee and the Board will review this Charter at least every three years to ensure it remains appropriate. The Committee will recommend any changes to the Board for review and approval. The Board may adjust the Charter at any time.

Adopted _______________

Strategic Planning Function

Draft __________ the
Departmental Strategic Plan in

Comment [RWO13]: Added specific compliance responsibilities to align with APPFA and IIA Model AC charters.

Comment [RWO14]: Added other audit responsibilities to align with APPFA and IIA Model AC charters.

Comment [RWO15]: This language incorporate both IIA and APPFA. APPFA recommends annual review of Audit Committee charter while IIA Standards suggest periodic reviews.

Comment [RWO16]: Removed since the Committee will now focus solely on the audit function.
(a) Develop process to ensure operational implementation of the Strategic Plan;

(b) Continuously monitor operations for compliance with the Strategic Plan;

(c) Propose adjustments to operations, and/or the Plan, which the Committee deems appropriate for carrying out the mission statement;
Model Audit Committee Charter

Revised February 2013

Endorsed by:
Association of Public Pension Fund Auditors, Inc.
A Project of the Best Practices Committee
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Model Audit Committee Charter
Endorsed by APPFA
FOREWORD

The following Model Audit Committee Charter (Model AC Charter) captures many of the best practices used at the present time, February 2013. This Model AC Charter may not encompass all activities considered appropriate to a particular audit committee, nor are all activities identified in this Model AC Charter relevant to every audit committee. Accordingly, this Model AC Charter should be tailored to each audit committee's needs and governing rules. Moreover, as applicable laws, rules, and customs change, the audit committee charter should be updated.

Endorsement by the Association of Public Pension Fund Auditors, Inc. (APPFA) means that this document is intended as a starting point of reference and as a guide to public pension funds in formulating or revising their audit committee charters. To the extent that a public pension fund has unique circumstances, different applications and modifications of the example passages may be desirable.

The first version of this publication was completed in July 2003 and was updated in February 2013. The update was completed by the following members of the Best Practices Committee.

Flerida Rivera-Alsing, Chair  State Board of Administration of Florida
Ryan Babin    Louisiana State Employees Retirement System
Janet Harris    Public School Retirement System of Missouri
Amen Tam    Ontario Municipal Employees Retirement System
Toni Voglino    Maryland State Retirement and Pension System

The February 2013 version of this publication was approved by the APPFA Board in May 2013.
I. PURPOSE

The purpose of the Audit Committee (Committee) is to assist the Board of Trustees (the Board) in fulfilling its fiduciary oversight responsibilities in the areas of:

- Financial Reporting,
- Risk Management,
- Internal Control,
- Internal Audit,
- Engagement of External Auditors,
- Compliance, and
- Special Investigations and Whistleblower Mechanism
II. AUTHORITY

The Committee has the authority to direct the Chief Audit Executive (CAE), external auditors, or consultants to conduct an audit, review, and/or investigation into any matters within the Committee’s scope of responsibility. It is empowered to:

- Seek any information it requires from employees – all of whom are directed by the Board to cooperate with the Committee’s requests – external auditors, consultants, and external parties.

- Appoint, compensate, and oversee the work of all public accounting firms employed by the organization.

- Resolve any disagreements between management and the external auditors regarding financial reporting.

- Retain independent counsel, accountants, or others to advise or assist the Committee in the performance of its responsibilities.

- Approve the consultants, or others retained by the organization to assist in the conduct of an audit, review, and/or a special investigation.

- Meet with management, external and internal auditors, or outside counsel as necessary.
III. COMPOSITION

The Committee will consist of at least three, and no more than seven, members of the Board. The Board, or its nominating committee, will appoint Committee members and the Committee chair. Members of the Committee shall serve until the next such appointment of the Board or until their successors have been duly elected and qualified. The members of the Committee may be removed, with or without cause, by a majority vote of the Board.

Each Committee member will be independent and will complete an annual independence statement. Each Committee member will have professional experience and expertise in at least one of the following fields: institutional investing, risk management, accounting, auditing, or information technology. All members of the Committee shall have a working familiarity with basic finance and accounting practices. At least one member of the Committee shall be designated as the "financial expert," as defined by applicable legislation and regulation. Committee members shall have other qualifications as the Board determines appropriate.
IV. MEETINGS

The Committee shall 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, in person or via tele- or video-conference. Meetings will be conducted in accordance with open meeting and other applicable laws. Meeting agendas, along with appropriate briefing materials, will be prepared and provided in advance to Committee members and other required attendees. Minutes of the meeting will be prepared and approved by the Committee.

Meeting notices, agendas, and materials will be provided to interested parties in conformance with applicable laws, regulations, customs, and practices. The Committee may invite members of management, external auditors, internal auditors, or other third parties, to attend meetings and provide pertinent information, as the Committee deems appropriate to carry out its responsibilities. All members of the Board may attend the meetings of the Committee but may not vote if not a member of the Committee.

To foster open communication, the Committee shall, at least annually, meet separately with the CAE and the external auditors to discuss any matters that the Committee believes should be discussed privately. {Note: Subject to open meeting laws.} In addition, the Committee should annually meet with the external auditors to review the organization’s financial statements.
V. RESPONSIBILITIES

The Committee will carry out the following responsibilities:

A. Financial Reporting

- Obtain information and/or training to enhance the Committee’s understanding of the organization’s financial reports and the related financial reporting processes.

- Review significant accounting and reporting issues, including complex or unusual transactions, 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, significant adjustments or revisions to the financial statements, 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.

- Review the annual financial statements and any financial reports submitted to any governmental body; consider whether they are complete, consistent with information known to the Committee, 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 generally accepted auditing standards.

- Review with the General Counsel the status of legal matters that may have an effect on the financial statements.

- Review, in consultation with the external auditors and the CAE, the integrity of the organization’s financial reporting processes.

B. Risk Management

- Obtain information and/or training to enhance the Committee’s understanding of the organization’s risks 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 organization’s internal control system.
- Consider the effectiveness of the organization’s internal control system, including information technology security and control.
- Understand the scope of the external auditors’ review of the organization’s internal control over financial reporting.
- Review internal and external auditors’ significant findings and recommendations, together with management’s 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 and approve the Internal Audit Department Charter annually.
- Review and confirm, through organizational structure and/or by other means, the independence of the internal audit function annually.
- Concur in the appointment, replacement, or dismissal of the CAE.
- Review the performance of the CAE and the internal audit function periodically and concur with the annual compensation and salary adjustment of the CAE.
- 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 function’s staffing plan and budget.
- Review and approve the risk-based internal audit annual plan.
• Receive and review all internal audit reports.

• Review the responsiveness and timeliness of management’s follow-up activities pertaining to all reported findings and recommendations.

• Bring to the attention of the Board any audit issues the Committee determines significant and appropriate for consideration by the Board.

• On a regular basis, meet separately with the CAE to discuss any matters that the Committee or internal audit believes should be discussed privately. *(Subject to open meeting laws.)*

• Obtain and review the quality assurance report for the Internal Audit Department at least once every five years. Review for any concerns noted.

• Delegate to the CAE the oversight and management of the contracts of all public accounting firms hired by the organization.

• Designate the CAE 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. Engagement of External Auditors**

• Obtain information and/or training to enhance the Committee’s understanding of the organization’s financial statements audit and the role of external auditors.

• Approve the appointment, retention, or discharge of the external auditors. Obtain input from the CAE, management, and other parties as appropriate.

• Approve all audit and non-audit services to be performed by the external auditors.

• Review the external auditors’ proposed audit scope and approach, including the coordination of efforts with internal audit.

• Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the organization for all audit and non-audit services.

• On a regular basis, meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately. *(Note: Subject to open meeting laws.)*

• Provide guidelines and mechanisms so that no Committee member or organization staff shall improperly influence the external auditors.
• Obtain and review annually a list of all payments to the external auditors. The list should separately disclose the payment for the financial statements audit, other attestation projects, and non-audit services provided.

• Obtain and review the peer review report for the external audit firms on a periodic basis. Review for any concerns noted.

F. Compliance
• Review the effectiveness of the organization’s system for monitoring compliance with laws, regulations, contracts, and policies and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.

• Review the findings of any examinations by regulatory agencies, 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 organization legal counsel regarding compliance matters.

G. Special Investigations 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.

H. Other Responsibilities
• Report at least annually to the Board the Committee’s activities, audit issues, and related recommendations.

• Confirm annually that all responsibilities outlined in this Model AC Charter have been carried out.

• Review and assess annually the adequacy of this Model AC Charter; request Board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
• Evaluate annually the Committee's and individual member’s performance and report the results of the evaluation to the Board.

• Provide an open avenue of communication between the internal auditors, external auditors, management, and the Board.

• Perform other activities related to this Model AC Charter as requested by the Board.
VI. SIGNATURE PAGE

This Model AC Charter was adopted by the Committee on (date) and approved by the Board. This Model AC Charter is effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

_________________________________________  __________________________
Chair, Audit Committee                         Date

_________________________________________  __________________________
Chair, Board of Trustees                        Date
REFERENCES

The Institute of Internal Auditors’ Model Audit Committee Charter

Audit Committee Charter of the various public pension fund systems who are members of APPFA