

# Office of Audit Services Charter

## INTRODUCTION

Internal Auditing is an independent, objective assurance and consulting service designed to add value to and improve the operations of CalPERS. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Office of Audit Services (OFAS) assists CalPERS accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

## PURPOSE

The purpose of the CalPERS OFAS Charter is to assist CalPERS' internal auditors in fulfilling their mission and fiduciary responsibilities under the oversight of the Risk and Audit Committee (RAC).

## PROFESSIONALISM

OFAS will govern itself by adherence to the Institute of Internal Auditors' mandatory guidance including the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the OFAS' performance. Adherence to these Standards is required by California Government Code 13886.5 (GC 13886.5).

In addition to the mandatory guidance, OFAS may follow the standards of relevant professional organizations, as applicable. These professional standards and guidance include, but are not limited to, the following:

- ISACA Standards and Guidelines and Information Technology Best Practices and Frameworks, as applicable.
- American Institute of Certified Public Accountants (AICPA) Professional Standards and Code of Ethics, as applicable.
- Generally Accepted Government Auditing Standards established by the United States General Accountability Office, as applicable.
- Other professional standards, such as the Association of Certified Fraud Examiners (ACFE), as applicable.

## AUTHORITY

This Charter and all future amendments are to be approved by RAC and adopted by the Board of Administration (Board). Through Delegation of Authority to the Chief Auditor, the Chief Auditor and internal staff are authorized to obtain:

- Full, free and unrestricted access to all of the CalPERS functions, records, files and information systems, personnel, contractors, physical properties, rental locations, and any other item relevant to the function, process, or business unit under review.
- Free and unrestricted access to RAC, the Chair of RAC, and the President of and the members of the Board.
- Free and unrestricted access to the Chief Executive Officer (CEO), the other Executives, management, staff, contractors and vendors of CalPERS, and employers, members, retirees and beneficiaries of CalPERS.
- Free and unrestricted access to information at CalPERS' health plan contractors, including claims information, subject to applicable Federal and State laws.

## INDEPENDENCE

To provide for the independence of OFAS, its staff report to the Chief Auditor, who in turn reports administratively to the ~~CEO~~General Counsel, and has direct reporting responsibility to the CEO and RAC. The Chief Auditor shall freely discuss audit policies, audit findings and recommendations, audit follow-up, guidance issues and other matters with RAC, the CEO, the General Counsel and management as necessary. The Chief Auditor will present any potential issues regarding impairment of independence and/or conflicts of interest and their mitigation(s) to RAC.

Internal auditors will remain free from interference by any element in the organization that threaten the ability of OFAS to carry out internal audit responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, or report content, to permit maintenance of a necessary independent and objective mental attitude. The Chief Auditor and internal audit staff are not authorized to perform programmatic operational duties for CalPERS. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment. If the Chief Auditor is asked to take on a role and/or responsibility outside of internal auditing, that role shall be limited to an advisory or consulting capacity.

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

## SCOPE OF WORK

The scope of audit work encompasses the examination and evaluation of the adequacy and effectiveness of CalPERS governance, risk management, and internal control processes to achieve the stated goals and objectives of CalPERS. The scope may include:

- Ensuring programs and systems are operating within the highest fiduciary standards and are directed toward the requirements defined in the Federal and State constitutions, laws, regulations, and the policies and procedures of CalPERS.
- Reviewing the reliability and integrity of financial and operating controls and information and the means used to identify, measure, classify and report such information.
- Assessing business risks and verifying appropriate mitigating control mechanisms are in place.
- Reviewing established system of internal control to ascertain whether they are functioning as designed.
- Appraising the efficiency of processes and resources deployed.

In performing assurance services, the nature and scope of the engagements are determined by the internal auditor. For consulting services, the nature and scope of the consulting engagement are subject to agreement with the engagement client.

## RESPONSIBILITY

The Chief Auditor has a responsibility to:

- Ensure conformance of internal audit activity with the Standards.
- Ensure OFAS collectively possesses or obtains the knowledge, skills, experience, and other competencies needed to meet the requirements of this Charter.
- Ensure engagements are performed with proficiency and due professional care.
- Ensure professional competence through continuing education to match CalPERS' complex business environment which consists of pension benefits, investments, health benefits, and information technology.
- Safeguard the documents and information provided to internal audit staff in the same prudent and confidential manner as by those employees normally accountable for them.
- Develop an audit plan using an appropriate risk-based methodology, including risks or control concerns identified by management, and review that plan with RAC and provide periodic updates.

- Implement the audit plan, as approved, including as appropriate any special tasks or projects requested by management and/or RAC.
- Coordinate activities, where possible, and consider relying upon the work of other internal and external assurance and consulting service providers as needed.
- Evaluate and assess significant functions and new or changing systems, processes, operations, and control processes that correspond with their development, implementation, and/or expansion.
- Evaluate the effectiveness and efficiency with which resources are employed.
- Manage and coordinate the contract with the external financial statement auditors and other external auditors.
- Evaluate the quality of performance of external auditors and the degree of coordination with external auditors as well as any examinations performed by regulatory agencies.
- Perform consulting and advisory services related to governance, risk management and internal control as appropriate.
- Report significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Issue reports to RAC and management summarizing results of important matters identified through audit activities along with management's response to such issues/recommendations.
- Inform RAC of significant emerging trends and successful practices in the internal auditing profession.
- Confirm independence from undue influence while performing the duties of the Chief Auditor no less than four (4) times per year in closed RAC sessions.
- Monitor significant OFAS performance goals and review results with RAC as appropriate.
- Conduct risk-based audit procedures for compliance with new and existing laws and regulations and review results with management and RAC.
- Assist with investigations of known or suspected acts of fraud involving CalPERS funds, property and employees in coordination with other CalPERS functional areas and appropriate internal legal counsel.
- Follow up on all external auditor or regulatory reports and recommendations.

## **INTERNAL AUDIT PLAN**

At least annually, the Chief Auditor will submit an internal audit plan to RAC and Board for review and approval. The Chief Auditor and OFAS staff will implement the annual audit plan, as

approved, including, as appropriate, any plan amendments, and special tasks or projects requested by management and RAC. The Chief Auditor will prepare a budget that is complementary to the implementation of the audit plan. The audit plan will be refreshed as needed.

The internal audit plan will be developed based on a prioritization of all auditable units using a risk-based methodology, including input of the executive team and the Board. Any significant deviation from the approved internal audit plan will be communicated to the executive team and RAC through periodic activity reports.

## **REPORTING AND MONITORING**

A written report will be prepared and issued by the Chief Auditor following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to RAC.

In accordance with OFAS' Audit Resolution Policy, the internal audit activity will monitor corrective actions or acceptance of risk taken by management on reported audit issues and convey these actions to the executive team and RAC.

The Chief Auditor will periodically report to the executive team and RAC on the internal audit activity's independence, purpose, authority, and responsibility, as well as performance relative to its plan on its conformance with the Code of Ethics and the Standards. As required by standards, reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the executive team and the Board. In addition, the Chief Auditor will communicate to the executive team and RAC on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.