

## INTERNAL AUDIT POLICY

PUBLIC EMPLOYEES RETIREMENT SYSTEM INTERNAL AUDIT POLICY	Policy No. 102
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Subject: Internal Audit Charter	Page 1 of 5
Approved by: NDPERS Board	Date Approved: June 2023

### MISSION

The Internal Audit division is to provide an independent, objective assurance and consulting activity designed to add value and improve the agency's operations. The Internal Audit division will assist NDPERS in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

### ETHICAL RESPONSIBILITY

The Internal Audit division must follow the Code of Ethics of the Institute of Internal Auditors which is established to promote an ethical culture in the profession of internal auditing. The internal auditors are expected to apply and uphold the principles that follow.

#### Integrity

The internal auditors shall perform their work with honesty, diligence and responsibility. They shall observe the law and make disclosures expected by law and the Internal Audit profession. They shall not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or NDPERS. They shall respect and contribute to the legitimate and ethical objectives of NDPERS.

#### Objectivity

The internal auditors shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of NDPERS. They shall not accept anything that may impair or be presumed to impair their professional judgement. They shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

#### Confidentiality

The internal auditors shall be prudent in the use and protection of information acquired in the course of their duties. They shall not use the information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of NDPERS.

## **OBJECTIVES AND SCOPE**

### ***Objectives***

#### **Auditing Services**

The objectives of the Internal Audit division's auditing services are to provide independent assurance to the Audit Committee and Management that the agency's assets are safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws, and Board and Management policies. Included in the objectives are independent assessment of the agency's risk awareness and management of risk, reliability and integrity of the agency's data, and achievement of the agency's goals and objectives.

#### **Consulting and Advisory Services**

The Internal Audit division's objectives for the consulting and advisory services are to provide Management with assessments and advice for improving processes that will advance the goals and objectives of the agency. In particular, the objectives are to provide the assessments and advice on the front-end of projects so that risks may be identified, managed and internal controls may be designed at the beginning of a project.

### ***Scope***

The scope of the Internal Audit division's work is to conclude whether the agency's framework of risk management, internal control, and governance processes, as designed and represented by Management, is adequate and functioning in a manner to ensure:

1. Programs are operating within the highest fiduciary standards and are directed toward the requirements defined in the federal and state laws, regulations, local government ordinances and rules, and the policies and procedures of the agency.
2. Programs and processes are consistent with industry best practices, using the best public and private examples as benchmarks.
3. Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.
4. Significant financial, managerial, and operating information is accurate, reliable, and timely.
5. Resources are acquired economically, used efficiently, and adequately protected.
6. Existing policies and procedures are appropriate and updated.
7. Operations, processes and programs are consistent with established missions, objectives and goals and being carried out as expected.
8. Risks within and outside the agency are appropriately identified and managed.
9. Quality service and continuous improvement are fostered in the agency's control process.
10. Contractors, including third-party administrators, are meeting the objectives of the contracts, while in conformance with applicable laws, regulations, policies, procedures and best practices.
11. Operations, processes or programs are reviewed at the request of the Audit Committee or Management.

Improvements to member service, management of risks, internal control, governance, and the agency's effectiveness, efficiency and image may be identified during audits. This information will be communicated to the Audit Committee and to appropriate levels of Management.

## **AUTHORITY**

### Statute

The internal audit function of NDPERS is enabled to complete its mission by North Dakota Century Code §54-52-04 (10). The Internal Audit division is established by the Audit Committee of this agency pursuant to best practices. This Charter and all future amendments to it are to be approved by the Audit Committee and Board of Trustees through a majority vote. This Charter shall be reviewed periodically and updated as required by the Audit Committee.

### Access

The Chief Audit Officer and designated audit staff, as appropriate, are granted authority for full, free and unrestricted access to all of the agency's functions, records, files and information systems, personnel, contractors, physical properties, and any other item relevant to the function, process or division under review. All contracts with vendors shall contain the agency's standard audit language enabling the agency's internal auditors and other auditors and specialists to have access to relevant records and information. All of the employees of the agency are required to assist the internal auditors in fulfilling their audit functions and fiduciary duties.

The Chief Audit Officer shall have free and unrestricted access to the Chairman of the Audit Committee, the Audit Committee, and the Chairman and members of the Board of Trustees. The Chief Audit Officer shall also have free and unrestricted access to the Executive Director, Management and all personnel, contractors and vendors of the agency, and employers, members, retirees and beneficiaries of the agency.

## **INDEPENDENCE AND OBJECTIVITY**

The Chief Audit Officer reports functionally to the Audit Committee and reports administratively to the Executive Director. The Chief Audit Officer is hired, evaluated, retained and terminated by the Audit Committee. The Audit Committee may seek input from the Executive Director in making its selection.

The Chief Audit Officer shall freely discuss audit policies, audit findings and recommendations, audit follow-up, guidance issues and other matters as necessary. The standards of professional audit independence will be discussed with the Audit Committee periodically. The standards of independence used as benchmarks will be those of the organizations mentioned in the Professional Standards & Guidance section below.

## **RESPONSIBILITIES AND ACCOUNTABILITY**

The Chief Audit Officer is responsible for the following in order to meet the mission, objectives and scope of this Charter and the Internal Audit division:

1. Select, train, develop and retain a competent internal audit staff that 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, professional examinations, and professional certifications.
2. Establish policies for conducting its activities and directing its technical and administrative functions according to the agency's policies and direction provided by the Audit Committee, and professional standards.

3. Coordinate the completion of an annual risk assessment 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 in the completed annual risk assessments. This plan will be periodically updated as necessary.
4. Prepare a time budget that is complementary to the implementation of the audit plan.
5. Implement the annual audit plan, as approved, including, any plan amendments, special tasks or projects requested by Management and the Audit Committee. Audits will include an evaluation of the adequacy and effectiveness of existing systems of internal control and the efficiency and effectiveness of carrying out business objectives.
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 their recommendations.
7. Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
8. Establish and maintain a system to follow up on and monitor the results of management's corrective actions to ensure they have been implemented effectively or that management has accepted the risk of not taking action.
9. Issue periodic reports to the Audit Committee and Management summarizing results of audit activities, and summarizing the status of follow-up activities.
10. Provide periodic summaries of consulting and advisory activities to the Audit Committee.
11. Attend all Audit Committee meetings, and ensure attendance of additional staff and attendance by auditees as appropriate.
12. Establish and maintain a Quality Assurance and Improvement Program and obtain an external quality assessment through either a full-scope external quality assessment or a self-assessment with independent validation by a qualified independent assessor or assessment team from outside the agency as required by professional standards, no less frequently than every five (5) years as mandated by the IIA's *International Standards for the Professional Practice of Internal Auditing*.
13. Inform the Audit Committee of emerging trends and successful practices in internal auditing.
14. Assist in the investigation of significant suspected fraudulent activities within the agency and notify the Audit Committee, the Executive Director and Management, as appropriate, of the results.
15. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the agency at a reasonable overall cost.
16. Review annually the quality of the annual financial report and suggest improvements in the presentation and disclosures.
17. Report to the Audit Committee on all activities and associated costs of work performed by the external financial statement auditors.
18. Consult with the agency's Management, as requested, on potential policy and procedure changes.
19. Participate, in an advisory capacity, in the planning, design, development, and implementation and modification phases of major information systems.
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20. Participate in professional audit organizations and other professional organizations related to the mission of the agency by attending meetings, joining the governing boards, presenting speeches and papers, and networking with other professionals.

21. Act as the primary point of contact for handling all matter related to audits, examinations, investigations or inquiries of the State Auditor or other state or federal auditors.
22. Review the agency's Fraud or Misconduct policy and Code of Ethical Responsibility policy periodically.

## **PROFESSIONAL STANDARDS & GUIDANCE**

The Internal Audit division shall follow the applicable professional standards and guidance of relevant professional organizations. These include, but are not limited to, the following:

- Institute of Internal Auditors (IIA)
  - International Professional Practices Framework
  - Code of Ethics
- American Institute of Certified Public Accountants (AICPA)
  - Professional Standards
  - Code of Professional Conduct
- General Accounting Office (GAO)
  - Generally Accepted Government Auditing Standards (GAGAS)
- The Association of Certified Fraud Examiners (ACFE)
- Other professional agencies and standards as applicable