

INTERNAL AUDIT POLICY

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| PUBLIC EMPLOYEES RETIREMENT SYSTEM INTERNAL AUDIT POLICY | Policy No. 101 |
| | Original Effective Date: 8/26/93 |
| | Revised: November 19, 2014 |
| | New Effective Date: January 1, 2015 |
| Subject: Audit Committee Charter | Page 1 of 4 |

PURPOSE

The audit committee is appointed by the board of directors of the agency to assist the board of directors in fulfilling its fiduciary oversight responsibilities for (1) financial reporting, (2) risk management, (3) internal controls, (4) internal audit, (5) the engagement of external auditors, (6) compliance, (7) the special investigations and whistleblower process, and (8) other responsibilities.

STRUCTURE

The audit committee will consist of two to five members with the majority of the members selected from the Board of Directors, and one may be selected from outside the organization. The Board or its nominating committee will appoint committee members and the committee chair. The Board should attempt to appoint committee members who are knowledgeable and experienced in financial matters, including the review of financial statements.

MEETINGS

The audit committee will meet as often as it determines is appropriate, but not less frequently than quarterly. All committee members are expected to attend each meeting, in person or via tele- or video-conference, with a minimum of two required for a quorum. The committee periodically will hold individual meetings with management, the internal auditor and the external auditor. The audit committee may invite any officer or employee of the agency, the external auditor, the agency's outside counsel, or others to attend meetings and provide pertinent information.

Meeting agendas will be prepared by the Chief Audit Executive (CAE) and provided in advance to members, along with appropriate briefing materials. Minutes will be kept by a member of the audit committee or a person designated by the audit committee. Members of the audit committee will be compensated for attendance at committee meetings in accordance with NDPERS' policy for compensation in effect at the time for Board members. Audit Committee members who are not NDPERS board members will be compensated at the same rate.

AUTHORITY

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

- Seek any information it requires from NDPERS employees, external auditors, consultants, and external parties. All parties are directed by the Board to cooperate with the Committee's requests.
- Oversee the work of all external auditors employed by the organization.
- Assist in resolving any disagreements between management and the external auditors regarding financial reporting, if necessary.

- Oversee the retention of 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.

RESPONSIBILITIES

The audit committee will carry out the following responsibilities:

1) Financial Reporting:

- a. Obtain information and/or training to enhance the committee members' expertise in financial reporting standards and processes so the committee may adequately oversee financial reporting.
- b. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- c. Review with management, the external auditors, and the internal auditors the results of the external audit, significant adjustments or revisions to the financial statements, including attestation on the effectiveness of the internal control structure and procedures for financial reporting and any difficulties encountered.
- d. 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 statements.
- e. Review the annual financial statements, consider whether they are complete, consistent with information known to the Committee, and reflect appropriate accounting principles.
- f. Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
- g. Review the responsiveness and timeliness of management's actions to address findings and recommendations resulting from the financial statement audit or internal audits.
- h. Review with the General Counsel the status of legal matters that may have an effect on the financial statements, as deemed appropriate.

2) Risk Management

- a. Obtain information and/or training to enhance the Committee's understanding of organization and its related risk management processes.
- b. Review the adequacy of the organization's policy on risk management.
- c. Review the effectiveness of the organization's system for assessing, monitoring, and controlling significant risks or exposures.
- d. Review management's reports on risks and related risk mitigations.
- e. Hire outside experts and consultants in risk management, as necessary, subject to full board approval.

3) Internal Control

- a. Obtain information and/or training to enhance the Committee's understanding of the organization's system of internal control.
- b. Consider the effectiveness of the organization's internal control system, including information technology security and control.

- c. Understand the scope of the external auditor's review of the organization's internal control over financial reporting.
- d. Review internal and external audit findings and recommendations, together with management's responses.

4) Internal Audit

- a. Obtain information and/or training to enhance the Committee's understanding of the internal audit function.
- b. Periodically review and approve the Internal Audit Division Charter.
- c. Concur in the appointment, replacement, or dismissal of the CAE.
- d. Review the performance of the CAE and the internal audit function annually.
- e. Review and confirm, through organizational structure and/or by other means, the independence of the internal audit function annually.
- f. Review with management and the CAE the charter, objectives, plans, activities, and organizational structure of the internal audit function.
- g. Review and approve the risk-based internal audit annual plan.
- h. Review internal audit reports provided to the audit committee.
- i. Review the responsiveness and timeliness of management's follow-up activities pertaining to any reported findings and recommendations.
- j. Bring to the attention of the Board any internal audit issues the Committee determines significant and appropriate for consideration by the Board.
- k. On a regular basis, meet separately with the CAE to discuss any matters the committee or internal audit believes should be discussed privately (subject to open meeting laws).
- l. 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.

5) Engagement of External Auditors

- a. Obtain the information and/or training to enhance the Committee's understanding of the organization's financial statements audit and the role of external auditors.
- b. Review the performance of the external financial statement audit firm, and review the State Auditor's recommendation for the final approval on the request for proposal for, and the appointment, retention or discharge of the audit firm. Obtain input from the CAE, management and other parties as appropriate.
- c. Review the external auditor's audit scope and approach, including coordination of efforts with internal audit.
- d. Review 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.
- e. On a regular basis, meet separately with the external financial statement audit firm to discuss any matters the committee or auditors believe should be discussed privately (subject to open meeting laws).

6) Compliance

- a. Review the effectiveness of the organization's system for monitoring compliance with laws and regulations, contracts, and policies and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- b. Review the findings of any examinations by regulatory agencies, any auditor observations related to compliance, and the responsiveness and timeliness of management's actions to address the findings/observations.
- c. Obtain updates from management and organization legal counsel regarding compliance matters, as needed.

7) Special Investigations and Whistleblower Process

- a. Institute and oversee special investigations, as needed.
- b. Ensure the creation and maintenance of an appropriate whistleblower mechanism for reporting any fraud, noncompliance, and/or inappropriate activities.
- c. Retain independent counsel, accountants, or other specialist to advise the Committee or assist in the conduct of an investigation, subject to full board approval.

8) Other Responsibilities

- a. Report at least annually to the Board of Directors the Committee activities, audit issues, and related recommendations.
- b. Confirm annually all responsibilities outlined in this charter have been carried out. Review and assess periodically the adequacy of the Committee charter, request Board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- c. Evaluate the Committee's performance and report the results of the evaluation to the Board annually.
- d. Provide an open avenue of communication between the internal auditors, external auditors, management and the Board.
- e. Avoid conflicts of interest, paying strict attention to board matters.
- f. Perform other activities related to this Charter as requested by the Board.

Submitted by: Jamie Kinsella

Approved by: NDPERS Audit Committee November 19, 2014

Approved by: NDPERS Board