

## INTERNAL AUDIT POLICY

PUBLIC EMPLOYEES RETIREMENT SYSTEM INTERNAL AUDIT POLICY	Policy No. 102
	Effective Date: June 24, 1993
	Revised: September 1, 2005
Subject: Internal Audit Charter	Page 1 of 4
Approved by: NDPERS Board	Date Approved: December 15, 2005

### MISSION

The Internal Audit Division is to provide an independent, objective assurance and consulting activity designed to add value and improve an organization'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.

### 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 organization'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 organization's risk awareness and management of risk, reliability and integrity of the organization's data, and achievement of the organization'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 organization. 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 organization'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 organization.
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 whether they are being carried out as planned.
8. Risks within and outside the organization are appropriately identified and managed.
9. Quality service and continuous improvement are fostered in the organization's control process.
10. Contractors, including third-party administrators, are meeting the objectives or 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, profitability, and the organization'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 this organization 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 organization pursuant to best practices. This Charter is approved by and all future amendments to it are to be approved by the Audit Committee through a majority vote. This Charter shall be reviewed periodically and updated as required by the Audit Committee.

### Access

The Internal Audit Manager and designated audit staff, as appropriate, are granted authority for full, free and unrestricted access to all of the organization'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 organization's standard audit language enabling the organization's internal auditors and 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 Internal Audit Division in fulfilling their audit functions and fiduciary duties.

The Internal Audit Manager 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 Directors. The Internal Audit Manager shall also have free and unrestricted access to the Executive Director, Management and all personnel, contractors and vendors of the organization, and employers, members, retirees and beneficiaries of the organization.

### Confidentiality

Documents and information given to the Internal Audit Division shall be handled in the same prudent and confidential manner as by those employees normally accountable for them. The Internal Audit Manager shall ensure that internal audit staff is instructed in the handling and safeguarding of confidential information.

## **INDEPENDENCE AND OBJECTIVITY**

The Internal Audit Manager reports functionally to the Audit Committee and reports administratively to the Executive Director. The Internal Audit Manager is hired, evaluated, retained and terminated by the Audit Committee. The Audit Committee seeks input from the Executive Director in making its selection.

The Internal Audit Manager 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 Standards of Audit Practice below.

## **RESPONSIBILITIES AND ACCOUNTABILITY**

The Internal Audit Manager 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 organization's policies and direction provided by the Audit Committee, and professional standards.
3. Conduct 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. 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, as appropriate, any plan amendments, special tasks or projects requested by Management and the Audit 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 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. Conduct periodic follow-up reviews to evaluate the adequacy of Management's corrective actions.
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. Obtain a peer review by other internal auditors 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 organization 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 organization at a reasonable overall cost.
16. Evaluate 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 organization'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 related systems to determine whether:
  - Adequate controls are incorporated in the systems;
  - Adequate risk management techniques have been utilized;
  - Thorough systems testing is performed at appropriate stages;
  - Systems documentation is complete and accurate; and
  - The intended purpose and objectives of the system implementation or modifications have been met.
20. 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 the mission of the organization.
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 appropriate State or Federal Auditors.
22. Review the organization's fraud policy and ethics policy periodically.

## **STANDARDS OF AUDIT PRACTICE**

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

- International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of Institute of Internal Auditors (IIA).
- 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.