

## Office of Audit Services Charter

### Purpose

The purpose of the Office of Audit Services (OFAS) is to strengthen CalPERS' ability to create, protect, and sustain value by providing the Board of Administration (Board) and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

OFAS enhances CalPERS':

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

OFAS is most effective when:

- Internal auditing is performed by competent professionals in conformance with The Institute of Internal Auditor's (IIA) Global Internal Audit Standards™ (Standards), which are set in the public interest.
- OFAS is independently positioned with direct accountability to the Board.
- Internal auditors are free from undue influence and committed to making objective assessments.

### ***Commitment to Adhering to the Standards***

OFAS will adhere to the mandatory elements of IIA's International Professional Practices Framework, which are the Standards and Topical Requirements. The Chief Auditor will report periodically to the Board and senior management regarding OFAS' conformance with the Standards, which will be assessed through a quality assurance and improvement program.

### Mandate

OFAS performs operational audits of the CalPERS organization, provides advisory services, and conducts compliance audits of agencies that contract with CalPERS for pension and health benefits.

### ***Authority***

Adherence to the Standards is required by California Government Code (GC) section 13886.5. In addition, GC sections 20222.5 and 22797 provide OFAS with the audit authority for agencies that contract with CalPERS for retirement and health benefits.

OFAS' authority is created by its direct reporting relationship to the Board. Such authority allows for unrestricted access to the Board.

The Board authorizes OFAS to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Free and unrestricted access to the Risk and Audit Committee (RAC), the Chair of RAC, and all the members of the Board.
- Free and unrestricted access to the Chief Executive Officer (CEO), other executives, management, team members, 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.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary personnel of CalPERS and other specialized services from within or outside CalPERS to complete internal audit services.

### ***Independence, Organizational Position, and Reporting Relationships***

The Chief Auditor will be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of OFAS. The Chief Auditor will report functionally to the Board and administratively to the CEO. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the Board, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

The Chief Auditor will confirm to the Board, four times per year, the organizational independence of OFAS. If the governance structure does not support organizational independence, the Chief Auditor will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The Chief Auditor will disclose to the Board any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on OFAS' effectiveness and ability to fulfill its mandate.

### ***Changes to the Mandate and Charter***

Circumstances may justify a follow-up discussion between the Chief Auditor, Board, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- Significant changes in the Standards.
- Significant reorganizations within the organization.
- Significant changes in the Chief Auditor, Board, and/or senior management.

- Significant changes to the organization’s strategies, objectives, risk profile, or the environment in which the organization operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

## **Board Oversight**

To establish, maintain, and ensure that OFAS has sufficient authority to fulfill its duties, the Board will:

- Discuss with the Chief Auditor and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of OFAS.
- Ensure the Chief Auditor has unrestricted access to and periodically communicates and interacts directly with the Board, including in private meetings without senior management present.
- Discuss with the Chief Auditor and senior management other topics that should be included in the internal audit charter.
- Participate in discussions with the Chief Auditor and senior management about the “essential conditions,” described in the Standards, which establish the foundation that enables an effective internal audit function.
- Approve the OFAS’ charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Review the internal audit charter periodically with the Chief Auditor to consider changes affecting the organization, such as the employment of a new Chief Auditor or changes in the type, severity, and interdependencies of risks to the organization; and approve the internal audit charter biennially.
- Approve the risk-based internal audit plan and any subsequent significant changes to the plan.
- Provide input to senior management on the appointment and removal of the Chief Auditor, ensuring adequate competencies and qualifications, and conformance with the Standards.
- Review and provide input to senior management on the Chief Auditor’s performance.
- Receive communications from the Chief Auditor about OFAS, including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established and review the results annually.
- Make appropriate inquiries of senior management and the Chief Auditor to determine whether scope or resource limitations are inappropriate.
- Participate in the annual enterprise risk assessment to communicate the board’s perspective on the organization’s strategies, objectives, and risks.

## **Chief Auditor Roles and Responsibilities**

### ***Ethics and Professionalism***

The Chief Auditor will ensure that internal auditors:

- Conform with the Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

### ***Objectivity***

The Chief Auditor will ensure that OFAS remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the Chief Auditor determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors are not obligated to change any portion of an engagement's results due to the lack of management agreement unless there is a valid reason to do so.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for CalPERS or its affiliates.
- Initiating or approving transactions external to OFAS.
- Directing the activities of any CalPERS employee that is not employed by OFAS, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the Chief Auditor, Board, management, or others.

- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

### ***Managing OFAS***

The Chief Auditor has the responsibility to:

- At least annually, develop a risk-based internal audit plan that considers the input of the Board and senior management. Discuss the plan with the Board and senior management and submit the plan to the Board for review and approval.
- Communicate the impact of resource limitations on the internal audit plan to the Board and senior management.
- Review and adjust the internal audit plan, as necessary, in response to changes in CalPERS' business, risks, operations, programs, systems, and controls.
- Communicate with the Board and senior management if there are significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Standards and laws and/or regulations.
- Oversee engagements performed by internal audit staff or by other service providers with whom OFAS contracts.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the Board and senior management periodically and for each engagement as appropriate.
- Ensure OFAS collectively possesses or obtains the knowledge, skills, and other competencies and qualifications, including the use of technological resources, needed to meet the requirements of the Standards, and fulfill the internal audit mandate.
- Ensure OFAS has the technology tools to support the internal audit function and periodically re-evaluate the relevance of existing tools to explore opportunities for improved effectiveness and efficiency.
- Identify and consider trends and emerging issues that could impact CalPERS and communicate to the Board and senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide OFAS.
- Ensure adherence to CalPERS' relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Standards. Any such conflicts will be resolved or documented and communicated to the Board and senior management. Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the Chief Auditor cannot

achieve an appropriate level of coordination, the issue must be communicated to senior management and, if necessary, escalated to the Board.

- Promptly communicate any necessary corrections to final engagement communications to all parties who receive the original communication containing a significant error or omission.

### ***Communication with the Board and Senior Management***

The Chief Auditor will coordinate OFAS' Board communications with the CEO to support the Board's ability to fulfill its requirements. The Chief Auditor will report periodically to the Board and senior management regarding:

- OFAS' mandate.
- The internal audit plan and performance relative to its plan.
- Internal audit budget.
- Significant revisions to the internal audit plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include OFAS' conformance with the Standards and action plans to address OFAS' deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Board that could interfere with the achievement of CalPERS' strategic objectives.
- Results of assurance and advisory services.
- Resource requirements.
- Disagreements with senior management or other stakeholders on the scope, findings, or other aspects of an engagement that may affect the ability of the internal audit function to execute its responsibilities.
- Management's responses to risk that OFAS determines may be unacceptable or acceptance of a risk that is beyond CalPERS' risk appetite. It is not the responsibility of the Chief Auditor to resolve the risk.

### ***Quality Assurance and Improvement Program***

The Chief Auditor will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of OFAS. The program will include external and internal assessments of OFAS' conformance with the Standards, as well as performance measurement to assess OFAS' progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address OFAS' deficiencies and opportunities for improvement.

Annually, the Chief Auditor will communicate with the Board and senior management about OFAS' quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside CalPERS; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.

## **Scope and Types of Internal Audit Services**

The scope of internal audit services covers the entire breadth of the organization, including all of CalPERS' activities, assets, and personnel. The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the Board and management on the adequacy and effectiveness of governance, risk management, and control processes for CalPERS.

The nature and scope of advisory services may be agreed with the party requesting the service, provided OFAS does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of CalPERS' strategic objectives are appropriately identified and managed.
- The actions of CalPERS' executives, senior leaders, team members, contractors, CalPERS contracted employers, or other relevant parties comply with CalPERS' policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Operations and programs are being carried out effectively, efficiently, ethically, and equitably.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact CalPERS.
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

**Approved by the Board at its meeting on [date].**

**Acknowledgements/Signatures**

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Chief Auditor

\_\_\_\_\_  
Date

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Board Chair

\_\_\_\_\_  
Date

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Date