

SERS Board Governance Policy Manual

INTERNAL AUDIT OFFICE CHARTER Adopted on May 7, 2024

I. Purpose and Mission

The purpose of the Pennsylvania State Employees' Retirement System's (SERS) Internal Audit Office is to provide independent, objective assurance and consulting services designed to add value to SERS' operations. The mission of SERS' Internal Audit Office is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Internal Audit Office assists SERS in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

II. Standards for the Professional Practice of Internal Auditing

The Internal Audit Office will govern itself by striving to adhere to the elements of The Institute of Internal Auditors' (IIA) International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing.

III. Authority

- A. The Internal Audit Director will report functionally to the Audit, Risk and Compliance Committee and administratively (i.e., day-to-day operations) to the Executive Director. To establish, maintain, and assure that SERS' Internal Audit Office has sufficient authority to fulfill its duties, the Audit, Risk and Compliance Committee is authorized to:
- Recommend to the State Employees' Retirement Board (Board) to approve amendments to this Internal Audit Office Charter.
 - Approve the risk-based internal audit plan.
 - Receive communications from the Internal Audit Director on the Internal Audit Office's performance relative to its internal audit plan and other matters.
 - Consent to decisions regarding the discipline and removal of the Internal Audit Director.

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- Make appropriate inquiries of SERS' management, and the Internal Audit Director, to determine whether there is inappropriate scope or resource limitations.
- B. The Internal Audit Director will have unrestricted access to, and communicate and interact directly with, the Audit, Risk and Compliance Committee, including in executive sessions without management present.
- C. The Internal Audit Office is authorized to:
- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
 - Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
 - Request assistance from the necessary personnel of SERS, as well as other specialized services from within or outside SERS, in order to complete SERS' internal audit plan.

IV. Independence and Objectivity

- A. The Internal Audit Director will ensure that the Internal Audit Office remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Internal Audit Director determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties, including the Audit, Risk and Compliance Committee.
- B. Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that: (i) they believe in their work product, (ii) no quality compromises are made, and (iii) they do not subordinate their judgment on audit matters to others.
- C. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

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- Assessing specific operations for which they had responsibility within the previous year.
 - Performing any operational duties for SERS.
 - Initiating or approving transactions external to the Internal Audit Office.
 - Directing the activities of any SERS employee not employed by the Internal Audit Office, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.
- D. Where the Internal Audit Director has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity, Internal auditors will:
- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
 - Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
 - Make balanced assessments of all available and relevant facts and circumstances.
 - Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.
- E. The Internal Audit Director will confirm to the Audit, Risk and Compliance Committee, at least annually, the organizational independence of the Internal Audit Office.
- F. The Internal Audit Director will disclose to the Audit, Risk and Compliance Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

V. Scope of Internal Audit Activities

- A. The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit, Risk and Compliance Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for SERS. Internal audit assessments include evaluating whether:
- Risks relating to the achievement of SERS' strategic objectives are appropriately identified and managed.

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- The actions of SERS' officers, directors, employees, and contractors follow SERS' policies, procedures, and applicable laws, regulations, and governance standards.
 - The results of operations or programs are consistent with established goals and objectives.
 - Operations or programs are being carried out effectively and efficiently.
 - Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact SERS.
 - Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
 - Resources and assets are used efficiently and protected adequately.
- B. The Internal Audit Director will report periodically to senior management and the Audit, Risk and Compliance Committee regarding:
- The Internal Audit Office's purpose, authority, and responsibility.
 - The Internal Audit Office's audit plan and performance relative to its plan.
 - Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit, Risk and Compliance Committee.
 - Results of audit engagements or other activities.
 - Resource requirements.
- C. The Internal Audit Director also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The Internal Audit Office may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the Internal Audit Office does not assume management responsibility.
- D. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.
- E. The Internal Audit Office will act as the liaison between SERS and its external auditors, including administratively assisting both SERS staff and the external auditors during the annual independent audit or other audit related engagements that reside under the Internal Audit Office.

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- F. Draft the Request for Proposal (RFP) document for the procurement of the independent auditor and other applicable vendors as the need arises. Coordinate the associated evaluation committee activity needed for these RFPs.

VI. Responsibility

The Internal Audit Director has the responsibility to:

- A. Submit, at least annually, to senior management and the Audit, Risk and Compliance Committee a risk-based internal audit plan for review.
- B. Communicate to senior management and the Audit, Risk and Compliance Committee the impact of resource limitations on the internal audit plan.
- C. Review and adjust the internal audit plan, as necessary, in response to changes in SERS' business, risks, operations, programs, systems, and controls.
- D. Communicate to senior management and the Audit, Risk and Compliance Committee any significant interim changes to the internal audit plan.
- E. Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- F. Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit, Risk and Compliance Committee any corrective actions not effectively implemented.
- G. Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- H. Ensure the Internal Audit Office collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit Office Charter.

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- I. Ensure trends and emerging issues that could impact SERS are considered and communicated to senior management and the Audit, Risk and Compliance Committee as appropriate.
- J. Ensure emerging trends and successful practices in internal auditing are considered.
- K. Establish and ensure adherence to policies and procedures designed to guide the Internal Audit Office.
- L. Ensure adherence to SERS' relevant policies and procedures unless such policies and procedures conflict with the Internal Audit Office Charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit, Risk and Compliance Committee.
- M. Strive to conform with all applicable standards including those of the Institute of Internal Auditors, American Institute of Certified Public Accountants, Governmental Accounting Standards Board, and Standards for Internal Control in the Federal Government (Green Book.)

VII. Quality Assurance and Improvement Program

- A. The Internal Audit Office will implement a quality assurance and improvement program and procure a vendor for an external quality assurance assessment. The quality assurance assessment is to be conducted on the Internal Audit Office, from a qualified, independent firm, at least every five years, as required by the Institute of Internal Auditor's Global Internal Audit Standards.
- B. The Internal Audit Office will comply with periodic requests by the Commonwealth's Office of Budget for a list of the audits performed and whether any significant findings were identified. The Internal Audit Office will also allow the Commonwealth's Office of Budget to perform a quality assurance review of its work product. The review will include an evaluation of the Internal Audit Office's conformance with applicable Standards. The review may also assess the efficiency and effectiveness of the Internal Audit Office and identify opportunities for improvement.
- C. The Internal Audit Director will communicate to senior management and the Audit, Risk and Compliance Committee on the results of any Commonwealth Office of

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Budget's quality assurance reviews performed, including the Internal Audit Office's responses to any recommendations for improvement resulting from the review.

- D. The Internal Audit Office will facilitate with the Commonwealth of Pennsylvania Office of the Budget's Enterprise Risk Management Assessment and agency audit review processes, as well as the Governor's Office Risk Office and their respective practices.
- E. The Internal Audit Office will assist the agency in the event of an audit being conducted by the Commonwealth of Pennsylvania Auditor General's Office.

I. Document Properties

- a. **Document Owner:** Internal Audit Office
- b. **Document Author:** Ryan McCoy, CIA
- c. **Related Documents:** N/A
- d. **Summary of Changes:**

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