

#### 2024 AUDIT SERVICES PROPOSED CHARTER

#### I. INTRODUCTION

California State Teachers' Retirement System (CalSTRS) Audits and Risk Management (ARM) Committee oversees Audit Services as outlined in the <u>ARM Committee Charter</u>. The Audits Services Charter defines CalSTRS Audit Services' purpose, mandate, roles, responsibilities, scope, and types of services.

## II. MISSION AND PURPOSE

### A. Audit Services' Mission

Enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

# B. Audit Services' Purpose

Strengthen CalSTRS' ability to create, protect, and sustain value by providing the ARM Committee and management with independent, risk-based, and objective assurance and advisory services to assist CalSTRS':

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

#### Audit Services is most effective when:

- Auditing is performed by competent professionals in conformance with The Institute of Internal Auditors' Global Internal Audit Standards, which are set in the public interest.
- It is independently positioned with direct accountability to the ARM Committee.
- Audit staff are free from undue influence and committed to making objective assessments.

## C. Commitment to Adherence of the Global Internal Audit Standards

Audit Services will adhere to the mandatory elements of *The Institute of Internal Auditors* (IIA) International Professional Practices Framework, which are the Global Internal Audit Standards (Standards) and Topical Requirements, as applicable. The Chief Auditor will report annually to the ARM Committee and senior leadership regarding Audit Services' conformance with the Standards as assessed through a quality assurance and improvement program. Audit Services may follow the standards and practices of other relevant professional organizations, including but not limited to, the following:

- Information Systems Audit and Control Association and other applicable information technology and security frameworks.
- American Institute of Certified Public Accountants.
- United States General Accounting Office.
- Association of Certified Fraud Examiners.



#### III. MANDATE

## A. Authority and Oversight

The ARM Committee assists the Teachers' Retirement Board in fulfilling its fiduciary oversight responsibilities for audits and provides oversight over audit activities. The ARM Committee grants Audit Services the mandate to provide the board and senior leadership with objective assurance, advice, insight, and foresight. Audit Services' authority is created by its direct reporting relationship to the ARM Committee.

The Chief Auditor has the authority to direct a broad, comprehensive program of auditing within CalSTRS. The ARM Committee authorizes Audit Services to:

- 1. Have full and unrestricted access to all functions, data, records, information, physical properties, any other items relevant to operations, processes, and personnel pertinent to carrying out assurance and advisory services. The Chief Auditor shall ensure that audit staff are instructed in the handling and safeguarding of confidential information. CalSTRS employees are required to assist Audit Services staff in fulfilling its audit functions and fiduciary duties. Contracts with vendors shall contain the standard CalSTRS language enabling audit staff to have access to relevant records and information.
- 2. Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the Audit Services' objectives.
- 3. Obtain assistance from the necessary CalSTRS staff and other specialized services from within or outside of CalSTRS to complete Audit Services' responsibilities.

The following statutes address further authority and support for the internal audit function and adherence to the Standards.

- Government Code section 1237 establishment of an internal audit unit
- Government Code section 13071 establishment of standards
- Government Code sections 13885 to 13888 internal audit activities and adherence to auditing standards.
- Education Code section 22206 ARM Committee authorization to perform public agency audits and by adoption of this charter, designates Audit Services to conduct audits of school districts, county offices of education and any employer with employees who may perform creditable service subject to coverage by the State Teachers' Retirement Plan.

# B. Access

To provide objective assurance, advice, insight and foresight, the ARM Committee authorizes the Chief Auditor access to:

- 1. ARM Committee chairperson and members subject to open meeting laws. As needed, or when the Chief Auditor believes that certain matters should be discussed privately, the Chief Auditor can meet separately with the ARM Committee leadership, subject to open meeting laws.
- 2. CalSTRS Chief Executive Officer, executives, managers, staff, contractors, and vendors, and employers, members, retirees, and beneficiaries of CalSTRS.



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# C. Independence, Organizational Position and Reporting

The Chief Auditor is positioned at a level in the organization that enables Audit Services activities and responsibilities to be performed without interference from management, thereby establishing the independence of Audit Services. The Chief Auditor reports functionally to the ARM Committee and administratively to the Chief Operating Officer. This positioning provides the organizational authority and status to bring matters directly to senior leadership and escalate matters to the ARM Committee, when necessary, without interference and supports Audit Services' ability to maintain objectivity.

The Chief Auditor will confirm to the ARM Committee, at least annually, the organizational independence of Audit Services. 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 ARM Committee any interference Audit Services encounter related to the scope, performance, or communication of audit work and results. The disclosure will include communicating the implications of such interference on the Audit Services function's effectiveness and ability to fulfill its mandate.

The Chief Auditor may occasionally report to the Teachers' Retirement Board or the Chief Executive Officer, as circumstances require the Chief Auditor to fulfill the duties of reporting and disclosure. The Chief Auditor shall freely discuss audit policies, audit findings, planned corrective action, finding resolution, guidance issues, and other matters as necessary with appropriate CalSTRS staff, management, ARM Committee, Teachers' Retirement Board, and others who have the need to know.

#### D. Changes to the Charter

CALSTRS

The Chief Auditor will periodically assess the Audit Services Charter and discuss with the ARM Committee and senior leadership circumstances that may require changes to Audit Services mandate or other aspects of the Audit Services Charter. Such circumstances may include but are not limited to:

- 1. Significant change in the Standards.
- 2. Significant reorganization within the organization.
- 3. Significant changes in the Chief Auditor, ARM Committee, and/or senior leadership.
- 4. Significant changes to the organization's strategies, objectives, risk profile or the environment in which the organization operates.
- 5. New laws or regulations that may affect the nature and/or scope of audit activities.

#### IV. CHIEF AUDITOR ROLES AND RESPONSIBILITIES

## A. Ethics and Professionalism

The Chief Auditor will ensure that audit staff:

- 1. Conform with the Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- 2. 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.



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- 3. Encourage and promote an ethics-based culture in the organization.
- 4. Report behavior that is inconsistent with the organization's ethical expectations.

### B. Objectivity

The Chief Auditor will ensure that the audit function remains free from all conditions that threaten the ability of audit staff to carry out their responsibilities in an unbiased manner, including 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.

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

Audit Services staff and contracted audit firm personnel will have no direct operational responsibility or authority over any of the activities they review. Accordingly, audit staff or contracted audit firm personnel will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- 1. Assessing specific operations for which they had responsibility within the previous year.
- 2. Performing operational duties for CalSTRS and/or its contractors.
- 3. Initiating or approving transactions external to Audit Services.
- 4. Directing the activities of any CalSTRS employee that is not employed by Audit Services, except to the extent that such employees have been appropriately assigned to assist audit staff.

#### Audit staff will:

- 5. Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties at least annually, such as the Chief Auditor, ARM Committee, management, or others.
- 6. Exhibit professional objectivity in gathering, evaluating, and communicating information.
- 7. Make balanced assessments of all available and relevant facts and circumstances.
- 8. Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

#### C. Managing Audit Services

The Chief Auditor has the responsibility to:

# **Audit Administration**

- 1. Ensure Audit Services collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the Standards and fulfill Audit Services mandate, audit plan and strategic plan.
- 2. Establish and ensure adherence to Audit Services procedures and methodologies designed to guide audit staff in the performance of audit activities.
- 3. Ensure adherence to CalSTRS' relevant policies and procedures unless such policies and procedures conflict with Audit Services Charter or Standards. Any such conflicts will be resolved or documented and communicated to the ARM Committee and senior leadership.





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- 4. Ensure use of technology-based audits and other data analysis techniques to fulfill Audit Services mandate, audit plan and continued improvement of the audit function.
- 5. Administer Audit Services budget, expenditures, and human resources in accordance with laws, regulations and CalSTRS policies and in consideration of meeting Audit Services' mandate, strategic plan, and audit plan activities.

## Strategic and Audit Plan

- 6. Develop strategic plan and performance objectives for Audit Services.
- 7. Conduct an annual risk assessment that considers the input of the ARM Committee and senior leadership to develop and implement a flexible, risk-based, approved audit plan.
- 8. Review and update the audit plan, as necessary, in response to changes in CalSTRS business, risk, operations, programs, systems and controls.

## **Audit Finding Resolution**

9. Establish and maintain a follow-up process on engagement findings identified to ensure implementation of action plans.

# **Audit Coordination**

- 10. 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 leadership and if necessary escalated to the ARM Committee.
- 11. Lead the process for the selection, contract management and performance evaluation of the external financial statement auditor.

## Board and Committee Meeting Attendance

- 12. Facilitate the ARM Committee meetings and ensure attendance of external auditors, consultants, audit staff and CalSTRS management, as appropriate.
- 13. Attend Teachers Retirement Board and Committee meetings to address any audit-related items.

## D. Communication with the ARM Committee and Senior Leadership

Annually, the Chief Auditor will report to the ARM Committee and senior leadership regarding:

- 1. Audit Services' strategic plan progress.
- 2. Approval of Audit Services' audit plan and plan performance.
- 3. Confirmation of Audit Services' independence.
- 4. Results of assurance and advisory services, including any themes related to the organization's governance, risk management and control processes.
- 5. Audit findings resolution update.
- 6. Audit Services' budget and resource requirements.
- 7. Quality assurance and improvement program results (internal and external assessments) and any necessary action plans to address deficiencies, or opportunities for improvement.

Periodically, the Chief Auditor will report to the ARM Committee and senior leadership regarding:

- 8. Audit Services' mandate.
- 9. Significant changes to Audit Services' audit plan, budget, or resources.



- 10. Impact of resource limitations on the audit plan.
- 11. Potential impairments to independence and any relevant disclosures.
- 12. Identified trends and emerging issues that could impact CalSTRS, as appropriate.
- 13. Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the ARM Committee that could interfere with the achievement of CalSTRS strategic objectives.
- 14. Management's responses to risk that Audit Services determines may be unacceptable or acceptance of a risk that is beyond CalSTRS' risk appetite.

## E. Quality Assurance and Improvement Program

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

- 1. Ensure audit engagements are performed, documented, communicated, and supervised in accordance with the Standards, Audit Services' procedures, and applicable laws and/or regulations.
- 2. Consider emerging trends and successful practices in internal auditing.
- 3. Ensure external assessments of Audit Services are conducted at least once every five years by a qualified, independent assessment team from outside CalSTRS with qualifications of at least one assessor holding an active Certified Internal Auditor® credential.

#### V. SCOPE AND TYPES OF AUDIT SERVICES

#### A. Scope of Services

Audit Services scope of work covers the entire breadth of the organization, including CalSTRS' activities, assets, personnel, and vendors/contractors. The scope of audit activities encompasses but is not limited to objective examinations of evidence to provide independent assurance and/or advisory services to the ARM Committee and management on the adequacy and effectiveness of governance, risk management, and control processes to achieve CalSTRS goals and objectives.

Audit Services' engagements may include evaluating whether:

- 1. Risks relating to achievement of CalSTRS' strategic objectives are appropriately identified and managed.
- 2. The actions of CalSTRS board members, management, staff, contractors, and vendors comply with CalSTRS' policies, Code of Ethics and Business Conduct, procedures and applicable laws, regulations, and governance standards.
- 3. Results of operations and programs are consistent with established goals and objectives.
- 4. Operations and programs are being carried out effectively, efficiently, ethically, and equitably.



- 5. Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact CalSTRS.
- 6. The integrity of financial, managerial, and operating information and the means used to identify, measure, analyze, classify, and report such information is accurate, reliable, and timely.
- 7. Resources and assets are economically acquired, efficiently and sustainably used, and sufficiently protected.
- 8. Significant changes to functions, services, processes, operations, and controls align with their development, implementation, and/or expansion.
- 9. Disbursement and communication of benefit payments to CalSTRS members are accurate, appropriate, and timely.
- 10. Quality service and continuous improvement are fostered in CalSTRS control processes.
- 11. Significant legislative or regulatory issues impacting the organization are identified and addressed appropriately.

## B. Types of Services

Audit Services provides the following types of services.

- 1. <u>Assurance Services</u>: Objective assessments to provide assurance to CalSTRS board and management. The nature and scope of an assurance activity is determined through an engagement level risk assessment. Results are communicated to the ARM Committee, senior leadership, the applicable business area, and other assurance providers.
- 2. <u>Advisory Services</u>: Advice to the organization's stakeholders without providing assurance or taking on management responsibilities. The nature and scope of advisory services may be agreed with the party requesting the service, provided the Audit Services does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements and will be communicated to the appropriate level of leadership.
- 3. <u>Employer Audits</u>: Objective assessment of Employers' (school districts, county offices of education, charter schools, community colleges and other government entities) compliance with the Teacher's Retirement Law. Results of the audits will be communicated to employers and exclusive representatives and posted to CalSTRS website.
- 3. <u>Co-Sourced Engagements</u>: Audit Services engages external audit firms to work with audit staff in providing audit and advisory services over CalSTRS specialized and technical business operations such as investments, technology, and information security. The nature and scope of an assurance activity is determined through an engagement level risk assessment. Results are communicated to the ARM Committee, senior leadership, the applicable business area, and other assurance providers.
- 4. Other Services: Audit Services provides insight and foresight through participation on various governance, project, or ad hoc committees in an advisory role. At the request of ARM Committee or management, Audit Services may consult on major initiatives, projects, or systems prior to implementation to assist in the identification and management of risks and control design considerations.



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