

Internal Audit Charter

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INTERNAL AUDIT CHARTER

I. PURPOSE

The purpose of Internal Audit is to strengthen LACERA's ability to produce, protect, and provide the promised benefits to LACERA's members by providing the Audit, Compliance, Risk, and Ethics (ACRE) Committee (Committee) and management with independent, risk-based, and objective assurance and advisory services, designed to add value and improve LACERA's operations.

Internal Audit enhances LACERA's:

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

Internal Audit is most effective when:

- Internal auditing is performed by competent professionals in conformance with The Institute of Internal Auditors' (IIA's) Global Internal Audit Standards, which are set in the public interest.
- It is independently positioned with accountability to the board or a board committee.
- Internal Auditors are free from undue influence and committed to making objective assessments.

Commitment to Adhering to the Global Internal Audit Standards

Internal Audit will adhere to the mandatory elements of the IIA's International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements (Standards). The Chief Audit Executive (CAE) will annually report to the ACRE Committee and Executive Office regarding Internal Audit's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

Additionally, Internal Audit will obtain guidance from the professional standards and practices of other, relevant professional organizations, including but limited to, the American Institute of Certified Public Accountants, the Information Systems Audit and Control Association, the Associate of Certified Fraud Examiners, and the Association of Public Pension Fund Auditors.



II. MANDATE

A. Authority

LACERA's ACRE Committee grants Internal Audit the mandate to provide the Committee, Boards and Management with objective assurance, advice, insight, and foresight. Internal Audit's responsibilities are defined by the ACRE Committee as part of the Committee's oversight role.

Internal Audit's authority is created by its direct reporting relationship to the ACRE Committee of the Board of Retirement and Board of Investments. Such authority allows the CAE to have unrestricted access to and communicate directly with the ACRE Committee and Boards, subject to the requirements of the Ralph M. Brown Act (Government Code Section 54950, et seq.).

The Committee authorizes Internal Audit to:

1. Have full and unrestricted access to all divisions, 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.
2. Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
3. Obtain assistance from the necessary LACERA staff and other specialized services from within or outside LACERA to complete Internal Audit's responsibilities.

B. Independence, Organizational Position, and Reporting Relationships

The CAE is positioned at a level in the organization that enables Internal Audit's responsibilities to be performed without interference from Management (See "Mandate" section), thereby establishing the independence of Internal Audit.

The CAE reports functionally to the ACRE Committee, and administratively to the Chief Executive Officer (CEO). This positioning provides the organizational authority and status to bring matters directly to Management and escalate matters to the Committee, when necessary, without interference and supports Internal Audit's ability to maintain objectivity.

The CAE will confirm to the ACRE Committee, at least annually, the organizational independence of Internal Audit. The CAE will disclose to the Committee any interference Internal Audit encounters related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the Internal Audit's effectiveness and ability to fulfill its mandate.

C. Changes to the Mandate and Charter

Circumstances may justify a follow-up discussion between the CAE, the ACRE Committee, and Management on the Internal Audit Mandate or other aspects of the Internal Audit Charter. Such circumstances may include but are not limited to:

1. A significant change in the Global Internal Audit Standards.
2. A significant reorganization within LACERA.



3. Significant changes in the CAE, Committee, Boards, and/or Executive Management.
4. Significant changes to the LACERA'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 Internal Audit services.

III. CHIEF AUDIT EXECUTIVE ROLES AND RESPONSIBILITIES

A. Ethics and Professionalism

The CAE will ensure that Internal Audit staff:

1. Conforms with the Global Internal Audit 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.
3. Encourage and promote an ethics-based culture in the organization.
4. Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

B. Objectivity

The CAE will ensure that Internal Audit 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 CAE 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 equality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

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:

1. Assessing specific operations for which they had responsibility within the previous year.
2. Performing operational duties for LACERA.
3. Initiating or approving transactions external to Internal Audit.
4. Directing the activities of any LACERA employee that is not employed by Internal Audit, 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 CAE, Executive Management, ACRE Committee, or others.

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

C. Managing the Internal Audit Function

The CAE has the responsibility to:

1. Develop a 3-Year Roadmap, a plan to continue to mature and improve Internal Audit.
2. At least annually, develop a risk-based Internal Audit Plan that considers the input of the ACRE Committee and Executive Management. Discuss the plan with the Committee and Executive Management and submit the plan to the Committee for review and approval.
3. Communicate the impact of resource limitations on the Internal Audit Plan to the Committee and Executive Management.
4. Review and adjust the Internal Audit Plan, as necessary, in response to changes in LACERA's business, risks, operations, programs, systems, and controls.
5. Communicate with the Committee and Executive Management if there are significant interim changes to the Internal Audit Plan.
6. Ensure Internal Audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
7. Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of Internal Audit's services to the Committee and Executive Management quarterly.
8. Ensure Internal Audit collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Global Internal Audit Standards and fulfill the Internal Audit mandate.
9. Identify and consider trends and emerging issues that could impact LACERA and communicate to the Committee and Executive Management as appropriate.
10. Consider emerging trends and successful practices in internal auditing.
11. Establish and ensure adherence to methodologies designed to guide Internal Audit.
12. Ensure adherence to LACERA's relevant policies and procedures unless such policies and procedures conflict with the Internal Audit Charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the ACRE Committee and Executive Management.



13. Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the CAE cannot achieve an appropriate level of coordination, the issue must be communicated to Executive Management and if necessary escalated to the Committee.
14. Monitor LACERA's Ethics Hotline process and provide reporting to the Committee.

D. Communication with the ACRE Committee and Executive Management

The CAE will report annually to the Committee and Executive Management regarding:

1. Internal Audit's mandate.
2. Confirmation of Internal Audit's independence.
3. Progress on and updates to Internal Audit's 3- Year Roadmap.
4. Internal Audit Plan and performance relative to its Plan, including results from assurance and advisory services.
5. Internal Audit's budget and resource requirements.
6. Results from the quality assurance and improvement program, which include Internal Audit's conformance with The IIA's Global Internal Audit Standards and action plans to address Internal Audit's deficiencies and opportunities for improvement.

The CAE will report as needed to the Committee and Executive Management regarding:

7. Significant revisions to the Internal Audit Plan and budget.
8. Potential impairments to independence, including relevant disclosures as applicable.
9. Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus that could interfere with the achievement of LACERA's strategic objectives.
10. Management's responses to risk that Internal Audit determines may be unacceptable or acceptance of a risk that is beyond LACERA's risk appetite.

E. Quality Assurance and Improvement Program

The CAE will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of Internal Audit. The program will include external and internal assessments of Internal Audit's conformance with the Global Internal Audit Standards, as well as performance measurement to assess Internal Audit's 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 Internal Audit's deficiencies and opportunities for improvement.

Annually, the CAE will communicate with the Committee and Executive Management about Internal Audit's 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 LACERA; qualifications must include at least one assessor holding an active Certified Internal Auditor credential.

IV. SCOPE AND TYPES OF INTERNAL AUDIT SERVICES

The scope of internal audit services covers the entire breadth of the organization, including all LACERA's 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 Committee and Management on the adequacy and effectiveness of governance, risk management, and control processes for LACERA.

Internal Audit engagements may include evaluating whether:

- Risks relating to the achievement of LACERA's strategic objectives are appropriately identified and managed.
- The actions of LACERA's Trustees, Management, Staff, Contractors, and Vendors comply with LACERA's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals objectives.
- Operations and programs are being carried out effectively, efficiently, equitably, and are designed to prevent and detect fraud.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact LACERA.
- 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.
- LACERA's ethics and values are upheld.

A. Assurance Services

Assurance services provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the ACRE Committee on governance, risk management, and control processes for LACERA. Assurance services assess if the organization's assets are adequately safeguarded, operations are effective and efficient, and compliance is maintained with prescribed laws and LACERA policies. Assurance services also include the independent assessment of the organization's risk awareness, reliability, and integrity of the organization's data and the achievement of LACERA's goals and objectives. Assurance engagements include operational, information technology, management, or fiduciary audits and continuous audits.

**B. Advisory Services**

Advisory services provide Management with formal assessments and advice for improving LACERA’s governance, risk management, and control processes, without Internal Audit assuming Management responsibility. Internal Audit will work with Management to agree upon the nature and scope for advisory services for the assessment and review of controls, policies, procedures, and systems, both manual and electronic. If Internal Audit identifies opportunities for improving controls, Internal Audit will communicate these opportunities to Executive and Division Management. If Internal Audit identifies a material deficiency in the control environment, Internal Audit will communicate this deficiency to Executive Management and the ACRE Committee, in addition to Division Management.

C. Other Value-Added Services

Internal Audit also provides informal advice to Management. Having Internal Audit involved at the beginning of a project, providing insight and foresight, aids management in identifying and managing risks effectively, and designing adequate internal controls. Examples of these services include participating in various committees in ex-officio capacity, providing routine advice on policies establishment of controls, providing training, risk management tools, and facilitating meetings.

V. APPROVAL

This Internal Audit Charter (“IA Charter”) was reviewed and adopted by the ACRE Committee on October 9, 2024. This IA Charter is thereby effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

APPROVED AND ADOPTED BY:

<p>Debbie Martin</p> <hr/> <p>Debbie Martin <i>Chair, ACRE Committee</i></p>	<p>Oct 26, 2024</p> <hr/> <p>Date</p>	<p>Santos H. Kreimann</p> <hr/> <p>Santos H. Kreimann <i>Chief Executive Officer</i></p>	<p>Oct 28, 2024</p> <hr/> <p>Date</p>
<p>Richard P. Bendall</p> <hr/> <p>Richard P. Bendall <i>Chair Audit Executive</i></p>	<p>Oct 28, 2024</p> <hr/> <p>Date</p>		