
Kentucky Public Pensions Authority

Charter for the KPPA Audit Committee

Throughout this Charter, the Kentucky Public Pensions Authority Board will be referred to as the Authority. When referring to the Kentucky Public Pensions Authority as an administrative organization, the acronym KPPA will be used. However, in reference to the Audit Committee, "KPPA Audit Committee" will be used. In that instance, KPPA will refer to the Kentucky Public Pensions Authority Board.

I. Charter

This Charter establishes the authority and responsibility of the KPPA Audit Committee of the Authority.

II. Purpose

The purpose of the KPPA Audit Committee is to assist the Authority, the Chief Executive Officer (CEO) of both the County Employees Retirement System (CERS) and the Kentucky Retirement Systems (KRS), and the KPPA Executive Director in fulfilling their oversight responsibilities for the:

1. System of internal controls,
2. Internal and external audit processes, and
3. Process for monitoring compliance with laws and regulations and the code of conduct as described in the appropriate entity bylaws.

As defined by the Institute of Internal Auditors, internal auditing is *an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The goal of internal auditing is to help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.*

Consistent with this definition, internal auditing within KPPA can be defined as the *independent appraisal of the various operations and systems of control within KPPA, CERS, and KRS to determine whether acceptable policies and procedures are followed, legislative requirements and established standards are met, resources are used efficiently and economically, planned missions are accomplished effectively, and the objectives of KPPA, CERS, and KRS are being achieved.*

III. Statutory Authorization

Kentucky Revised Statutes 61.505 outlines specific responsibilities of the Authority in relation to the Chief Auditor. The Authority has granted power to the KPPA Audit Committee to perform the following actions. The Authority may at any time rescind this power as a whole or in part. All recommendations or actions of the Audit Committee must be ratified by the Authority:

1. Recommend an appointment or contract for the services of a Chief Auditor or recommend the termination of services for the Chief Auditor.
2. Recommend the compensation and other terms of employment for the Chief Auditor without limitation of the provision of Kentucky Revised Statutes chapters 18A, 45A, and 64.640.
3. Work with the Chief Auditor concerning the staffing and organizational structure of the Division of Internal Audit.
4. On an annual basis, work with the Authority Chair on a performance evaluation of the Chief Auditor.
5. At least quarterly, report KPPA Audit Committee activities, issues, and related recommendations to the Authority for ratification.

IV. Composition

The KPPA Audit Committee will consist of four (4) Authority members – two CERS members and two KRS members appointed annually by the Chair of the Authority. The Authority Chair will also name the Chair of the Audit Committee. The Chair of the Authority may appoint a Vice Chair, or the members of the Audit Committee may elect a Vice Chair (note, the position of Vice Chair is not required to be filled). The Chair of the Audit Committee will rotate annually between a CERS and KRS member. A quorum to conduct business is satisfied if a majority of the Audit Committee members are present.

Each KPPA Audit Committee member will be independent and free of conflicts of interest with respect to the projects under the scope of the KPPA Audit Committee. For the purposes of the KPPA Audit Committee, independent shall mean those individuals who do not report directly to KPPA, CERS, or KRS management and those persons who are not directly responsible for the day-to-day operations of KPPA, CERS or KRS.

At least one member of the KPPA Audit Committee will be designated as the “financial expert.”¹ A financial expert is an individual who possesses, among other attributes:

1. An understanding of financial statement preparation and generally accepted accounting principles (GAAP) and, in this case, the accounting standards issued by the Governmental Accounting Standards Board (GASB).
2. The ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves.
3. Experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth, depth, and level of complexity of accounting issues that can reasonably be expected to be raised by the government entity’s financial statements or experience actively supervising one or more persons engaged in such activities.
4. An understanding of internal control and the procedures for financial reporting.
5. An understanding of audit committee functions.

V. Meetings

KPPA Audit Committee meetings must comply with Kentucky’s Open Meetings Act contained in Kentucky Revised Statutes Chapter 61.800, et seq. The KPPA Audit Committee will meet at least four (4) times a year, with authority to convene additional meetings, as circumstances require. All KPPA Audit Committee members and the Chief Auditor are expected to attend each meeting. The KPPA Audit Committee will invite KPPA, CERS, and KRS staff; internal and external auditors; or others to attend meetings and provide pertinent information, as deemed necessary. The KPPA Audit Committee may conduct closed sessions when legally authorized under Kentucky’s Open Meetings Act. In advance of each regular or special called meeting, the meeting agenda and appropriate briefing materials will be provided to members of the KPPA Audit Committee. KPPA staff will strive to have the meeting materials available to the KPPA Audit Committee members at least one week prior to the meeting date. Minutes will be prepared and approved by the KPPA Audit Committee. Agendas are posted to the KPPA website in compliance with Kentucky’s Open Meetings Act².

¹ See [Sarbanes-Oxley Act of 2002 § 407](#)

² See [Kentucky Open Meetings Act](#)

VI. Scope of Responsibilities

In order to fulfill the responsibilities delegated to it by the Authority, the KPPA Audit Committee is responsible for the following activities:

Internal Controls and Compliance

1. Evaluate the effectiveness of the internal controls system, including information technology security and control.
2. Evaluate the effectiveness of the system used to monitor compliance with laws and regulation as well as policies and procedures.
3. Evaluate the effectiveness of the system used to monitor noncompliance with the Commonwealth of Kentucky Executive Branch Code of Ethics³ and/or Authority bylaws as well as evaluate the process in which the code of conduct and bylaws are communicated to personnel.
4. Conduct or authorize investigations into any matters within the KPPA Audit Committee's scope of responsibility.
5. Evaluate the results of investigations and follow-up (including disciplinary action) on any instances of noncompliance.
6. At least quarterly, obtain updates from management and legal counsel regarding compliance matters.
7. Seek and obtain any necessary information from person(s) employed by KPPA, CERS, or KRS (all of whom are directed to cooperate with the KPPA Audit Committee's requests) or external parties.

Internal Audit

1. Evaluate the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.
2. Ensure there are no unjustified restrictions or limitations placed on Chief Auditor or the Division of Internal Audit in relation to the completion of audit projects.
3. Address any disagreements between KPPA, CERS, KRS, and the Chief Auditor regarding internal audit issues.
4. Accept KPPA management's responses submitted to internal audits.
5. Ensure recommendations from the Division of Internal Audit are closed in a reasonable time. Recommendations are generally closed for, but not limited to, one of the following reasons – recommendation implemented, recommendation no longer applicable, or KPPA management accepts risk and recommendation will not be implemented.
6. Evaluate and confirm the independence of the Chief Auditor and Division of Internal Audit staff by obtaining independence statements from all staff. Work with the Chief Auditor to resolve any actual or perceived conflicts.
7. On an annual basis, review and approve the Charter for the Division of Internal Audit, the Audit Plan, and the Internal Audit Budget. The Chief Auditor may request updates to the Audit Plan subject to the procedures outlined in the Charter for the Division of Internal Audit.
8. At least quarterly, meet with the Chief Auditor, including closed session discussions (if necessary), pursuant to Kentucky's Open Meeting Act in Kentucky Revised Statutes Chapter 61.800, et seq.

External Audit

1. Oversee the work of any registered Certified Public Accounting (CPA) firm employed by KPPA for the Annual Comprehensive Financial Report and other financial/control or fraud audits.
2. Understand the scope of external auditors' review of internal controls over financial reporting and obtain reports on significant findings and recommendations, together with management's responses.

³ [Kentucky Revised Statutes - Chapter 11A](#)

3. Pre-approve the scope of all financial audit and non-financial audit services provided by external auditors, including coordination of audit effort with the Division of Internal Audit.
4. Review the findings of any examinations by regulatory agencies and any auditor observations.
5. Evaluate the performance of the external auditors and exercise final approval on the appointment or discharge of the auditors.
6. Address any disagreements between KPPA, CERS, KRS, and the external auditor regarding financial reporting.
7. Receive communications from external auditors that are required by the AICPA Standards to be received by "Governing Boards."
8. Ensure recommendations from external auditors are closed in a reasonable time. Recommendations are generally closed for, but not limited to, one of the following reasons – recommendation implemented, recommendation no longer applicable, or KPPA management accepts risk and recommendation will not be implemented.
9. Evaluate and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the external auditors and KPPA, CERS, and KRS, including non-audit services. Discuss any identified relationships with the external auditors.
10. If necessary, meet with the external auditors, including closed session discussions, pursuant to Kentucky's Open Meeting Act in Kentucky Revised Statutes Chapter 61.800, et seq.

Reporting

1. Upon request, report KPPA Audit Committee activities, issues, and related recommendations to the CERS and KRS Boards of Trustees for informational purposes.
2. Review any other reports issued by the KPPA management that relate to the responsibilities of the KPPA Audit Committee.

Other

1. At least annually, review and assess the adequacy of the Charter for the Audit Committee.
2. At least annually, confirm that all responsibilities outlined in this Charter have been completed.
3. At least annually, consider evaluating the KPPA Audit Committee's and individual members' performance.
4. Facilitate open channels of communication between the Chief Auditor, the Division of Internal Audit, external auditors, the Authority, CERS, KRS, and KPPA management.
5. At each meeting, approve any unapproved minutes from prior KPPA Audit Committee meetings.
6. Meet with the CEOs of the CERS and KRS, KPPA management, Chief Auditor, external auditors, outside counsel, or others as necessary.
7. Perform other activities related to this Charter as requested by the Authority.

VII. Responsibilities of Other Parties

1. The auditors (internal and external) are responsible for planning and conducting audits.
2. The Authority is responsible for ratifying recommendations and actions taken by the KPPA Audit Committee.
3. KPPA management is responsible for ensuring internal and external audit recommendations are closed in a timely manner. Recommendations are generally closed for, but not limited to, one of the following reasons – recommendation implemented, recommendation no longer applicable, or KPPA management accepts risk and recommendation will not be implemented.
4. KPPA staff is responsible for the selection and hiring of the external auditor. The Chief Auditor shall be a part of the team that reviews bids for the external audit contract by serving on the evaluation team as a Technical Advisor.

