
Kentucky Public Pensions Authority

Charter for the Division of Internal Audit

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 Division of Internal Audit (Internal Audit).

II. Mission of Internal Audit

Internal Audit helps the Authority as well as the Board of Trustees (Board) of the County Employees Retirement System (CERS) and the Kentucky Retirement Systems (KRS) meet their fiduciary duties by enhancing and protecting organizational value by providing risk-based and objective assurance, advice, and insight.

III. Core Principles of Internal Audit

1. Demonstrate integrity.
2. Demonstrate competence and due professional care.
3. Remain independent, which is defined as objective and free from undue influence.
4. Support the strategies, objectives, and risks of the organization.
5. Remain appropriately positioned and adequately resourced.
6. Demonstrate quality and continuous improvement.
7. Communicate effectively.
8. Provide risk-based assurance.
9. Remain insightful, proactive, and future focused.
10. Promote organizational improvement.

IV. Audit Standards

Internal Audit shall adhere to the *International Standards for the Professional Practice of Internal Auditing* (Standards) issued by the Institute of Internal Auditors (IIA). Where applicable, Internal Audit will observe standards and statements issued by other accounting and auditing organizations located within the United States of America. Internal Audit is expected to abide by the IIA Code of Ethics (Exhibit A).

Internal Audit will adhere to the IIA's Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing (see section III), the Code of Ethics (see Exhibit A), the *Standards*¹, and the definition of internal auditing (see section VI). The Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the Internal Audit's performance.

¹ <https://na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>

V. KPPA Audit Committee

The purpose, statutory authorization, composition, and responsibilities of the KPPA Audit Committee are outlined in the Charter for the Audit Committee².

VI. The Internal Audit Function

Definition

As defined by the IIA, internal auditing is “*an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*”

Purpose and Objective

Internal Audit was originally established in July 2003. Internal Audit's purpose is to assist the Authority, the CERS and KRS Boards of Trustees, the Chief Executive Officer (CEO) of both CERS and KRS, and the KPPA Executive Director in fulfilling their governance role.

The primary objective of Internal Audit is to assist all levels of management in achieving the effective discharge of their assigned responsibilities by providing independent analysis, appraisals, advice, and recommendations concerning the activities reviewed. Internal Audit also assists in achieving sound managerial control over all financial and operational aspects including, but not limited to, accounting, investments, benefits, legal compliance, asset management, and information management and control systems.

Internal Audit helps the Authority and the systems it is tasked with administrating and operating, accomplish their objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes. Accomplishment of the Internal Audit objective may involve:

1. Evaluating the adequacy and effectiveness of the system of internal controls.
2. Participating in working groups established to review known or suspected fraud, waste, or abuse in any area of KPPA, CERS, or KRS.
3. Evaluating the relevance, reliability, and integrity of management, financial and operating data, and reports.
4. Evaluating the systems established to ensure compliance with statutory requirements, regulations, policies, plans, and procedures that could have a significant impact on operations.
5. Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
6. Evaluating the economy, efficiency, and effectiveness with which resources are employed.
7. Evaluating operations or programs to ascertain whether results are consistent with objectives and goals established by the Authority, CERS, and KRS as well as evaluating whether the operations or programs are being carried out as planned.
8. Assessing the adequacy of established systems and procedures.
9. Conducting special assignments and investigations on behalf of the Authority, CERS, or KRS into any matter or activity affecting the probity, interests, and operating efficiency of KPPA, CERS and KRS.

² [https://kyret.ky.gov/About/Meet the Administration/Pages/Board-Policies.aspx](https://kyret.ky.gov/About/Meet_the_Administration/Pages/Board-Policies.aspx)

Independence

Internal Audit is an advisory function having independent status within KPPA.

1. The Chief Auditor and Internal Audit staff shall be independent of any other office, division, branch, or section.
2. The Chief Auditor and Internal Audit staff shall have direct access, as deemed necessary, to the Authority and/or KPPA, CERS, and KRS staff.
3. The Chief Auditor and Internal Audit staff shall not be involved in the day-to-day operation of the KPPA, CERS, or KRS.
4. The Chief Auditor and Internal Audit staff shall not be responsible for the detailed development and/or implementation of new systems but should be consulted during the system development process on the control measures to be incorporated in new or amended systems and be advised of approved variations or new developments.
5. The Chief Auditor shall have no managerial powers, functions, or duties except those relating to the management of the Division of Internal Audit.

Authority

As described in Kentucky Revised Statutes 61.505, the Chief Auditor shall report directly to the Authority in the performance of all internal audit functions. The Authority has delegated some of this statutory authority to the KPPA Audit Committee. This delegation is described in the Charter for the Audit Committee.

The Division Director of Human Resources will be responsible for approving the Chief Auditor's weekly timesheet, leave requests, work schedule, and training/educational opportunity requests.

It is incumbent that all KPPA, CERS, and KRS staff render assistance to the Chief Auditor and Internal Audit staff in carrying out their audit duties.

1. The Chief Auditor and Internal Audit staff shall have access, at all reasonable times, to all books, documents, accounts, property, vouchers, records, correspondence, and other data of KPPA, CERS, and KRS necessary for the proper performance of the internal audit function. This includes having read-only access to internal systems, drives, and websites that are used to store documents, procedures, policies, etc.
2. The Chief Auditor and Internal Audit staff shall have access to generate reports from internal and external systems as deemed necessary for the proper performance of the internal audit function. If there are any disagreements related to access, the disagreements will be addressed by the KPPA Audit Committee in accordance with the Charter for the Audit Committee.
3. The Chief Auditor and Internal Audit staff shall have the right, at all reasonable times, to enter any premises of KPPA and to request and promptly receive from any KPPA, CERS, or KRS staff all information and such explanations deemed necessary for the Chief Auditor and Internal Audit staff to formulate an opinion on the probity of action, adequacy of systems, and/or of controls.

Activities

The Chief Auditor shall be responsible to the Authority for the functional control of internal audit activities in relation to:

1. Development, implementation, and oversight of internal audit methods and procedures.
2. Development and control of an efficient Audit Plan.
3. Scope and boundaries of internal audits.
4. Documentation of audit findings.

5. Assistance in the investigation of significant suspected fraudulent activities and promptly notifying the KPPA Audit Committee, the Authority, the CEOs of CERS and KRS, and the appropriate level of KPPA management of the results of any findings and conclusions.
6. Maintenance of certain records such as, but not limited to, records related to internal audits and CERS and KRS Board elections.
7. Considering the scope of work of the external auditors and regulators, as appropriate, for providing optimal audit coverage at a reasonable overall cost.
8. Fulfilling the objectives of the Division of Internal Audit.
9. Utilizing Internal Audit resources to maximize the efficiency and effectiveness of the internal audit function.
10. Adherence to appropriate auditing standards, including, but not limited to, International Standards for the Professional Practice of Internal Auditing, Generally Accepted Government Auditing Standards, and standards issued by the Auditing Standards Board (e.g., Statements on Auditing Standards, Statements on Standards for Attestation Engagements, and Statements on Quality Control Standards).
11. Review of the Annual Comprehensive Financial Report(s) and Summary Annual Financial Report(s).

Relationship with External Auditors

Assistance may be provided to the external auditor during the annual audit of the CERS and KRS financial statements or other audit engagements. The Chief Auditor shall work with the external auditors to foster a cooperative working relationship, reduce the incidence of duplication of effort, ensure appropriate sharing of information, and ensure coordination of the overall audit effort. Upon request, the Chief Auditor shall make available to the external auditors all internal audit working papers, programs, flowcharts, and reports.

VII. Internal Control System

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued the Internal Control – Integrated Framework³ to provide guidance to entities on setting up an effective internal control system. The Government Finance Officers Association recommends governments adopt COSO as the conceptual basis for designing, implementing, operating, and evaluating internal control so as to provide reasonable assurance that they are achieving their operational, reporting, and compliance objectives.⁴

Internal Audit utilizes guidance outlined in the COSO Internal Control Integrated Framework as well as the Standards for Internal Control in the Federal Government⁵ to perform reviews and assessments that help ensure these principles are established and working as intended.

Roles in the Internal Control System

Internal controls are the responsibility of KPPA management; however, all members of an organization play a role in the system.

1. Oversight Body – This includes the Authority, CERS Board, KRS Board, CERS CEO, and KRS CEO. The responsibilities include overseeing the strategic direction and obligations related to accountability. The oversight body should oversee management’s design, implementation, and operation of the internal control system.
2. Management Role – This includes the KPPA Executive Director, Deputy Executive Director, Chief Investment Officer, Executive Director-Office of Operations, Executive Director-Office of

³ [COSO Internal Control - Integrated Framework Principles](#)

⁴ [GFOA Internal Control Framework](#)

⁵ [GAO Standards for Internal Control in the Federal Government](#)

Benefits, Executive Director-Office of Legal Services, and Chief Financial Officer. Management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of the internal control system.

3. Personnel Role – this includes all other KPPA staff. Personnel help management design, implement, and operate the internal control system. Personnel is responsible for reporting issues noted in the entity’s operations, reporting, and compliance.

Components of COSO

There are five components of COSO. Each component consists of different principles that are needed to effectively design, implement, and operate an internal control system. An entity must establish a comprehensive framework for internal control that includes all five essential components identified by the COSO. The entity must also ensure that each component of internal control is functioning in a manner consistent with all relevant principles. A complete discussion is provided by the COSO Internal Control Integrated Framework (see footnote 3) and the Standards for Internal Control in the Federal Government (see footnote 5).

VIII. Scope of Responsibilities

In order fulfill the Internal Audit mission, staff will be responsible for the following activities:

Internal Audit Function

1. In coordination with KPPA Division of Human Resources, Chief Auditor will appoint all employees deemed necessary to fulfill the mission of Internal Audit.
2. Chief Auditor will oversee the day-to-day operations of Internal Audit.
3. Chief Auditor will work cooperatively with the CEOs of the CERS and KRS as well as KPPA management.

Internal Controls and Compliance

1. Work with the KPPA Audit Committee, the CEOs for the CERS and KRS, and the KPPA Executive Director and other appropriate KPPA staff in the performance of an annual risk assessment.
2. Develop an audit plan to address items noted in the risk assessment.
3. Test and evaluate effectiveness of policies and procedures that are in place to determine if they achieve strategic, risk management and operational objectives.
4. Perform audit, consulting, and assurance services as well as special projects in support of the Audit Plan and in compliance with Internal Audit procedures.

Board and Committee Meetings

1. Prepare agenda and meeting materials (to be presented by Internal Audit) for KPPA Audit Committee meetings.
2. Strive to provide meeting materials (to be presented by Internal Audit) to trustees at least one week prior to the meeting date.
3. Present results of audit, consulting, and assurance services as well as results of special projects to the KPPA Audit Committee and the Authority. If requested, present results to the CERS and/or KRS Boards of Trustees or any committee of those Boards.

Specific Areas of Expertise

Since Internal Audit has limited resources and specialized requirements are needed to administer a complex public pension system, Internal Audit may request third-party expertise to assist in fulfilling audit goals (e.g., information technology and data security). Outsourced third party audits will be approved by the KPPA Audit Committee. The findings, recommendations, and management comments

will be presented to the KPPA Audit Committee for approval and for subsequent ratification by the Authority.

IX. Internal Audit Practices

Conflicts of Interest

Internal auditors shall be objective and free from undue influence in performing their job. Objectivity requires internal auditors to have an impartial and unbiased attitude, to avoid conflicts of interest, and to perform audits in such a manner that no significant quality compromises occur. To help ensure that internal auditors are not placed in an environment impeding their ability to make objective, professional judgments, Internal Audit will take the following precautionary measures:

1. All Internal Audit staff will be required to complete an annual Independence Statement certifying that auditors have no actual or perceived conflict that would impair their objectivity or independence.
2. Internal Audit staff assignments will be made so that potential and actual conflicts of interest and bias are avoided. If a conflict of interest or bias is present, the auditor(s) will be reassigned.
3. Internal Audit staff assignments will be rotated periodically, if practicable to do so.
4. Internal Audit staff will not assume operational responsibilities.
5. For a period of no less than one year, Internal Audit staff will refrain from assessing specific operations for which they were previously responsible.

Due Professional Care

Internal auditors shall apply the care and skill expected of a reasonably prudent and competent auditor. Due professional care does not imply infallibility and internal auditors must exercise due professional care, with consideration of the following:

1. Extent of work needed to achieve the engagement's objectives.
2. Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
3. Adequacy and effectiveness of risk management, control, and governance processes.
4. Probability of significant errors, irregularities, or non-compliance.
5. Cost of assurance in relation to potential benefits.
6. Use of various software tools including, but not limited to TeamMate, Excel, Access, Word, Tableau, and Gravity.

Proficiency and Continuous Professional Education (CPE)

Internal Audit staff shall collectively possess the knowledge, skills, attributes, and other competencies essential to the practice of internal auditing within the organization. Educational and work experience criteria have been established for the various positions within Internal Audit. To maintain their proficiency, all auditors are encouraged to continue their education and will be provided adequate opportunities to do so. Such continuing education ensures that internal auditors remain current on professional techniques and standards. If an auditor holds a certification, continuing education hours necessary to meet certification requirements should be obtained. If no certification requirements are necessary, a minimum of 24 hours of continuing auditor education shall be obtained annually. Continuing education may be obtained through membership and participation in professional societies, attendance at conferences, college courses, and in-house training. KPPA may reimburse an auditor for the cost of obtaining continuing education; however, the employee must obtain approval prior to registering for any course or seminar.

Internal Audit staff are encouraged to obtain professional certification(s). Accreditation is an important indicator of an auditor's technical proficiency. The following certifications are some of those available to auditors (this list is not all-inclusive):

1. Certified Internal Auditor,
2. Certified Fraud Examiner,
3. Certified Government Financial Manager,
4. Certified Information Systems Auditor, and
5. Certified Public Accountant.

Performance Evaluations

Performance evaluations for **merit** employees shall be conducted as outlined in the Commonwealth of Kentucky Personnel Policies and Kentucky Revised Statutes Chapter 18A. The Chair of the Audit Committee shall review the performance for the Chief Auditor.

Records Retention and Disposition

As required by the Kentucky Department for Libraries and Archives, Internal Audit shall retain a complete file of each audit and consulting service made under its authority for a period of eight (8) years and an electronic copy of all final reports shall be retained by Internal Audit indefinitely. To guard against identity theft and fraud, destruction of business records and materials shall be done in a secured manner such as using the on-site Division of Waste Management recycle containers. All CD/DVD materials shall be submitted to the KPPA Information Security Officer.

X. Quality Assurance and Improvement Plan

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include an evaluation of Internal Audit's conformance with the Standards and an evaluation of whether internal auditors apply the IIA's Code of Ethics (see Exhibit A). The program will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

Internal Audit will conduct both ongoing and periodic internal assessments. Internal Audit should strive to have a qualified, independent assessor (or assessment team) conduct an external assessment at least once every five (5) years. The Chief Auditor will provide the results, including planned corrective action, of the internal and external assessments to the KPPA Audit Committee.

Internal Assessments

1. Ongoing Monitoring – Ongoing monitoring for routine internal audit activities are an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. The measurement tools for ongoing monitoring are engagement supervision; feedback from auditees, KPPA management, and the KPPA Audit Committee; Audit Plan completion; and identification and analysis of other performance metrics such as recommendations accepted.
2. Periodic Assessments – Internal Audit will conduct a Self-Assessment as outlined by the IIA. Internal Audit will strive to complete a Self-Assessment every three years.

External Assessments

Internal Audit should strive to have a qualified, independent assessor (or assessment team) conduct an external assessment at least once every five years. This can be completed as either a Self-Assessment with Independent External Validation or a full external assessment. The Chief Auditor will disclose the results and any needed corrective action to the KPPA Audit Committee.

XI. Internal Audit Services

The scope of Internal Audit shall be sufficiently comprehensive to enable the effective and regular review of all operational, financial, and related activities. Coverage may extend to all areas of KPPA, CERS, and KRS and include financial, accounting, investments, benefits, administrative, computing, and other operational activities. The extent and frequency of internal audits will depend upon varying circumstances such as results of previous audits, relative risk associated with activities, materiality, the adequacy of the system of internal control, and resources available to Internal Audit.

Internal Audit provides independent audit, consulting, and assurance services to assist management in balancing operational efficiency with risk identification, assessment, and control. Internal Audit reports to the Authority and collaborates with trustees and KPPA, CERS, and KRS staff to enhance assurance and accountability at all levels of KPPA, CERS, and KRS. To meet the responsibilities and objectives as set forth in the Internal Audit Charter, it is necessary for Internal Audit to perform varying types of services depending on the circumstances and requests. Services can be requested by the KPPA Audit Committee; the Authority; the CERS and KRS Boards; or any member of KPPA, CERS, or KRS staff. If a request is made by someone outside of the KPPA Audit Committee, the Chief Auditor will seek approval from the Chair of the KPPA Audit Committee before engaging in the service. Internal Audit provides the following types of audits, consulting, and assurance services.

Audits

1. **Internal Control Audits** – Internal Control audits serve as a systematic evaluation of the effectiveness and efficiency of internal controls in mitigating risks and ensuring the reliability of financial reporting. An Internal Control audit aims to assess the design, implementation, and operating effectiveness of controls across various business processes and functions. This comprehensive examination involves evaluating the adequacy of policies, procedures, segregation of duties, access controls, and monitoring mechanisms. An Internal Control audit can identify weaknesses, gaps, and potential vulnerabilities within systems, which enables KPPA to implement corrective measures and strengthen their control environment. Ultimately, these audits contribute to the overall governance, risk management, and compliance framework of KPPA, promoting transparency, accountability, and the achievement of strategic objectives.
2. **Compliance Audits** – Compliance audits determine whether an organizational area has complied with federal law, [Kentucky Revised Statutes](#), [Kentucky Administrative Regulations](#), agency policies and procedures, and division specific procedures,
3. **Operational Audits** – Operational audits analyze how effectively and efficiently business units achieve organization and/or division goals. Effectiveness is measured by how successful a business unit is at achieving goals. Efficiency is measured by how well the business unit uses resources to achieve the goals.
4. **Investment Audits** – Investment audits may be performed to review movement of funds (e.g., purchases, sales, and income), cash management, manager fees, and other investment related activities. Investment audits may also be performed to ensure compliance with procurement regulations, contracts, internal policies and procedures as well as to ensure proper internal controls exist over the investment function.
5. **Investigative Audits** – Investigative audits may result from findings during a routine audit or from information received from sources outside of Internal Audit. These audits are normally requested

by a trustees or staff of the KPPA, CERS, or KRS as a result of information received from a tip. These audits focus on alleged, irregular conduct. Reasons for investigative audits may include internal theft, misuse of agency property, and/or conflicts of interest. The Chief Auditor will refer this information to the KPPA Audit Committee Chair and Executive Director, Office of Legal Services. The Executive Director, Office of Legal Services will take immediate action to collect and preserve as much relevant evidence as possible. It is essential that the records in question be removed from the division/employee under investigation or otherwise safeguarded. The KPPA Audit Committee, in coordination with the Executive Director, Office of Legal Services and appropriate KPPA management will determine if an investigative audit needs to be conducted by Internal Audit, in accordance with Internal Audit procedures. These audits may include expertise from internal and external experts in fields, such as but not limited to, legal, information technology, human resources, and accounting. A draft investigative audit report will be provided to the KPPA Audit Committee. The KPPA Audit Committee will determine if further actions are needed. The KPPA Audit Committee will control any internal or external report distribution.

6. Information Technology Audits – Audits of information systems and technology may be performed to determine whether existing or new computer applications and hardware function in an accurate and efficient manner and include adequate internal controls. Internal Audit may be involved in the evaluation/implementation of a new system to review the system development methodology and the effectiveness and efficiency of the internal controls being implemented. These audits could include reviews of general controls which affect all computer applications. Examples may include computer security, disaster recovery, business continuity, program change controls, and quality control procedures.
7. Financial Audits – A financial audit is a review intended to serve as a basis for expressing an opinion regarding the fairness, consistency, and conformity of financial information with generally accepted accounting principles (GAAP). Financial audits can be comprehensive or limited in scope depending on the objectives.
 - a. A comprehensive financial audit consists of a review of the financial statements of an entity over a specific duration of time to accurately express an opinion on those statements. Such an audit is conducted in accordance with generally accepted auditing standards (GAAS) as adopted by the American Institute of Certified Public Accountants (AICPA). For CERS and KRS, an external auditor performs this type of audit annually. At least every five years, the Auditor of Public Accounts performs the annual financial audit.
 - b. A limited financial audit concentrates on a review of specific financial transactions. The primary concerns include determining the accuracy of data and evaluation of controls by reviewing the following items:
 - i. Physical control over assets,
 - ii. System of authorization and approval,
 - iii. Separation of duties between operations and custody of assets.

An engagement may involve more than one type of audit. For example, most audits performed are a combination of an internal controls, compliance, and operational audit.

Assurance Services – Assurance services help the organization improve their operations and financial performance.

1. Process Reviews – A process review is specific to a single business process. These reviews assess the effectiveness of internal controls over the process as well as test the efficiency of the process. These reviews also help ensure the business process is operating the way management intended. These reviews are typically performed in conjunction with a new business process being developed or immediately after a new business process is implemented. These reviews may be performed as

needed in response to findings identified while performing other types of services within a particular division.

2. **Policy Reviews** – During a policy review, Internal Audit analyzes either a new or established policy. Internal audit will ensure the policy complies with applicable Kentucky Revised Statutes, Kentucky Administrative Regulations, and federal laws. Internal Audit will also determine if the policy establishes sufficient internal controls in relation to the related business process. For example, during a review of a policy related to invoice payment, Internal Audit would ensure internal controls have been designed to ensure timely payment, prevent duplicate payment, establish segregation of duties, etc.

Consulting Services – Consulting services help organizations improve their efficiency and effectiveness.

1. Internal Audit staff may participate in the preparation of the Strategic Plan.
2. Internal Audit staff may participate on various work groups including, but not limited to, the KPPA Information Technology Governance team, the Continuity of Operations team, and other similar KPPA, CERS, or KRS working groups in order to provide an unbiased review of any policies and procedures created from these teams.

Other Services

1. **Agreed Upon Procedures** – An Agreed Upon Procedures engagement is performed only upon request. During these engagements, the requestor specifies exactly what the auditor is to do. The auditor then performs only the requested procedures. An opinion is not expressed in these reviews. For example, a request could be made to review all expenditures posted to a particular account(s) during a specific timeframe to determine if any expenditures were improperly coded to the account(s). Internal Audit would review the requested account(s) over the specified timeframe and issue a report indicating how many expenditures were posted incorrectly. These engagements are beneficial if there is an area a division wants to review but does not have the resources or time to perform the review themselves.
2. **Annual Report Review** – Each year, KPPA personnel prepares an Annual Comprehensive Financial Report for the County Employees Retirement System and Kentucky Retirement Systems. Prior to presentation to the Authority, the CERS Board, and KRS Board, Internal Audit will perform a review the Annual Comprehensive Financial Report and identify any perceived errors or discrepancies. However, the KPPA staff, not Internal Audit, is responsible for the substantive content, accuracy, consistency, and completeness of the Annual Comprehensive Financial Report.
3. **Summary Annual Financial Report Review** – Each year, KPPA personnel prepares a Summary Annual Financial Report for the County Employees Retirement System and Kentucky Retirement Systems. Internal Audit will review the Summary Annual Financial Report and identify any perceived errors or discrepancies. However, the KPPA staff, not Internal Audit, is responsible for the substantive content, accuracy, consistency, and completeness of the Summary Annual Financial Report.
4. **Referencing** – During the course of various types of audit, consulting, and assurance services, the Chief Auditor may identify continuing patterns of conduct or reoccurring “themes” (e.g. the same type of problem is noted in multiple divisions). For example, findings for two divisions within an office, which identify a broader office finding (e.g., lack of controls, need for increased communication, absence of performance criteria, insufficient data processing policy, etc.). When developing the Audit Plan, Internal Audit always considers these themes when scheduling audits for the next period, particularly when these items impact the KPPA mission.

5. Board of Trustee Elections – Internal Audit assists in both CERS and KRS Board elections. Detailed Internal Audit procedures related to the Board elections can be found on the [KPPA Process Documentation SharePoint site](#).

XII. Audit Process

Methodology

For all audit projects, the person responsible for the activity under review shall be advised and given the opportunity to discuss the following:

1. Prior to the audit: Objectives and scope of the audit to be conducted.
2. During the audit:
 - a. Preliminary findings and recommendations. These will be provided to staff in charge of the area under review and may also be provided to the Executive Director over the area under review, if requested.
 - b. Documentation of audit processes, including information that will be used to develop the background of the audit report and/or included as an exhibit in the audit report. This information will be provided to staff in charge of the area under review and may also be provided to the Executive Director over the area under review, if requested.
 - c. Final findings and recommendations. These will be released to management over the area under review so a response can be provided.
 - d. Draft audit report, without management's responses. This will be released to Executive Director over the area under review and the KPPA Executive Director.
3. Upon completion of the audit: Completed audit report that includes final findings and recommendations with management's response to the findings and any additional auditor responses.

Audit Reports

A comprehensive written report will be prepared and issued by Internal Audit at the conclusion of each audit and will be distributed as considered appropriate. A copy of each report is to be made available on a timely basis to the KPPA Audit Committee, the Authority, the CEOs of the CERS and KRS, and applicable members of KPPA staff. Audit reports will normally explain the scope and objectives of the audit, present findings and conclusions in an objective manner relevant to the specific user's needs and make recommendations where appropriate.

XIII. Annual Risk Assessment and Audit Plan

Consistent with the long-term strategic plan, the Chief Auditor shall prepare an annual Risk Assessment and Audit Plan providing for the review of significant operations of KPPA, CERS, and KRS pertaining to the achievement of objectives.

The Risk Assessment and Audit Plan shall be presented to the KPPA Audit Committee for deliberation and approval. Upon approval by the KPPA Audit Committee, the Risk Assessment and Audit Plan will be submitted to the Authority for ratification. After ratification by the Authority, the Risk Assessment and Audit Plan may be presented to the CERS Board and KRS Board for informational purposes.

Risk Assessment

Internal Audit assesses risks of KPPA, CERS, and KRS by seeking input from the trustees of the Authority, CERS, and KRS as well as key personnel of KPPA, CERS, and KRS. Internal Audit also reviews the results of past internal and external audits. Internal Audit then considers organizational risks, such as the COSO

components, existing internal controls, staffing, system changes, regulatory and legal changes, impact to the financial statements and organization reputation.

The Risk Assessment methodology is based upon the following five-part process:

1. Identifying KPPA, CERS, and KRS activities/processes (these become the “audit universe”).
2. Scoring the organizational risks for each process identified in the audit universe.
3. Ranking the processes by overall risk.

Internal Audit staff utilize audit software to determine the overall risk of each item in the audit universe. The inherent risk and inherent likelihood of each item are scored using a point value with zero (0) representing the lowest level and ten (10) representing the highest level of inherent risk/likelihood. The risk and likelihood individual scores are combined to generate the overall risk to the KPPA, CERS, and KRS. The overall risk scores for all items are then ranked highest to lowest.

Audit Plan

Based upon the results of the Risk Assessment as well as requests from trustees and/or KPPA, CERS, and KRS management, Internal Audit develops the Audit Plan. The Audit Plan is created through a prioritization process that includes scheduling audits for the highest risk areas as well as areas that have not been reviewed in recent years. The Audit Plan represents potential audits to be completed during the upcoming fiscal year. Internal Audit also identifies other potential audit segments such as business processes, expense contracts, and functional areas that may cross over operational units.

Throughout the fiscal year, the Audit Plan may be reviewed, evaluated, and modified according to the specific risk factors related to KPPA, CERS, and KRS operations and internal controls. If an adjustment is needed to the Audit Plan based on the periodic evaluation or if Internal Audit receives a request to complete an audit not previously identified on the Audit Plan, the requested modification(s) shall be forwarded to the Chair of the KPPA Audit Committee for approval.

1. The Chair of the KPPA Audit Committee can approve the requested modification(s) without seeking input from the rest of the KPPA Audit Committee. In these instances, the requested modification(s) will be added to the Audit Plan and reported to the KPPA Audit Committee as a part of the update on the “Status of Current Projects” at the next regularly scheduled KPPA Audit Committee meeting.
2. The KPPA Audit Committee Chair can call a special meeting to discuss the requested modification(s). In these instances, the KPPA Audit Committee will vote on whether to make the requested modifications to the Audit Plan.

Tracking Projects

Internal Audit staff continually track audits and other projects with electronic audit software. If a request is made to complete projects not foreseen during the development of the audit plan, these additional projects are also tracked through the audit software. The status of current projects is presented to the KPPA Audit Committee at each quarterly meeting. All findings and recommendations, including status and implementation dates, are thoroughly tracked, and documented using appropriate methodologies.

XIV. Internal Audit Procedures

Detailed Internal Audit procedures can be found on the [Internal Audit Process Documentation SharePoint](#) site.

XV. Approvals

We, the undersigned, do certify that this Charter was approved on 28th day of September 2023.

William O'Mara *10/10/23*

KPPA Audit Committee Chair Date

s/Keith Percy 10/19/2023

Board Chair Date
Kentucky Public Pensions Authority

Kristen D. Coffey September 29, 2023

Division Director of Internal Audit Date

History: Approval Date: September 28, 2023
Amended:

EXHIBIT A

{ CODE of ETHICS... }

// PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

• **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

• **Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

• **Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

• **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

// RULES OF CONDUCT

1. **Integrity**

Internal Auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. **Objectivity**

Internal Auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. **Confidentiality**

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

