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# County Employees Retirement System and Kentucky Retirement Systems

## Charter for the Joint Audit Committee

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### I. Charter

This Charter establishes the authority and responsibility of the Joint Audit Committee of the County Employees Retirement System (CERS) and the Kentucky Retirement Systems (KRS).

### II. Purpose

The purpose of the Joint Audit Committee is to assist the Board of Trustees (Board) and Executive Management teams of the CERS and the KRS as well as the Kentucky Public Pensions Authority (KPPA) 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. Authority

The Joint Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. The Joint Audit Committee is empowered to:

1. Oversee the work of any registered Certified Public Accounting (CPA) firm employed by KPPA;
2. Pre-approve the scope of all financial audit and non-financial audit services;
3. Resolve any disagreements between KPPA, CERS, and/or KRS management and the external auditor regarding financial reporting;
4. Resolve any disagreements between KPPA, CERS, and/or KRS management and the internal auditor regarding internal audit reports;
5. Oversee independent counsel, accountants, or others retained by KPPA to advise the Joint Audit Committee or assist in conducting an investigation;
6. Seek and obtain any necessary information from person(s) employed by KPPA, CERS, or KRS (all of whom are directed to cooperate with the Joint Audit Committee's requests) or external parties; and
7. Meet with officers, internal and/or external auditor, or outside counsel as necessary.

## **IV. Composition**

The Joint Audit Committee will consist of four (4) members – two CERS members appointed by the Chair of the CERS Board and two KRS members appointed by the Chair of the KRS Board. The members of the Joint Audit Committee will elect a Joint Audit Committee Chair and Vice-Chair.

A quorum to conduct business is satisfied if a majority of the Joint Audit Committee members are present. Each Joint Audit Committee member will be free of conflicts of interest with respect to the projects under the scope of the Joint Audit Committee. For the purposes of the Joint Audit Committee, independent shall mean those individuals who do not report directly to KPPA, CERS, or KRS management and also those persons who are not directly responsible for the day-to-day operations of KPPA, CERS or KRS. At least one member of the Joint Audit Committee will be designated as the “financial expert.”<sup>1</sup> A financial expert is an individual who possesses, among other attributes:

1. An understanding of financial statement preparation and generally accepted accounting principles (GAAP) – 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**

Joint Audit Committee meetings must comply with Kentucky’s Open Meetings Act contained in Kentucky Revised Statutes Chapter 61.800, et seq. The Joint Audit Committee will meet at least four (4) times a year, with authority to convene additional meetings, as circumstances require. All Joint Audit Committee members and the Director of the Division of Internal Audit Administration (Internal Audit) are expected to attend each meeting. The Joint Audit Committee will invite KPPA, CERS, and/or KRS staff; auditors; or others to attend meetings and provide pertinent information, as deemed necessary. The Joint Audit Committee may conduct closed session when legally authorized under Kentucky’s Open Meetings Act. Meeting agendas will be provided to members of the Joint Audit Committee, along with appropriate briefing materials. Minutes will also be prepared and approved by the Joint Audit Committee. Agendas and minutes will also be posted in compliance with Kentucky’s Open Meetings Act.

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<sup>1</sup> See Sarbanes-Oxley Act of 2002 § 407.

## **VI. Scope of Responsibilities**

The Joint Audit Committee is responsible for the following activities.

### **Internal Controls and Compliance for KPPA, CERS, and KRS**

1. Evaluate the effectiveness of the internal controls system, including information technology security and control.
2. Understand the scope of internal and external auditors' review of internal controls over financial reporting and obtain reports on significant findings and recommendations, together with management's responses.
3. Evaluate the effectiveness of the system used to monitor compliance with laws and regulation.
4. Evaluate the results of management's investigations and follow-up (including disciplinary action) of any instances of noncompliance.
5. Review the findings of any examinations by regulatory agencies and any auditor observations.
6. Evaluate the effectiveness of the system used to monitor noncompliance with entity code of conduct and/or bylaws as well as evaluate the process in which the code of conduct and bylaws are communicated to personnel.
7. Obtain regular updates from management and legal counsel regarding compliance matters.

### **Internal Audit**

1. The KPPA Executive Director will meet and confer with the Joint Audit Committee concerning the appointment, dismissal, replacement, and compensation of the Internal Audit Director. Since the Internal Audit Director is a non-merit position under Kentucky Revised Statute 18A, request for appointment and salary recommendations must come from the KPPA Executive Director and receive final approval from the Governor.
2. Review the Internal Audit staffing and organizational structure with the KPPA Executive Management team and the Internal Audit Director.
3. Annually, review and approve the Charter for Internal Audit Administration, Audit Plan, and Internal Audit Budget.
4. Ensure there are no unjustified restrictions or limitations placed on Internal Audit in relation to the completion of audit projects.
5. 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.
6. On a regular basis meet with the Internal Audit Director, including closed session discussions, pursuant to Kentucky's Open Meeting Act in Kentucky Revised Statutes Chapter 61.800, et seq.

### **External Audit**

1. Receive communications from external auditors that are required by the AICPA Standards to be received by "Governing Boards."
2. Evaluate the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
3. Evaluate the performance of the external auditors and exercise final approval on the appointment or discharge of the auditors.
4. Evaluate and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and KPPA, CERS, and KRS, including non-audit services. Discuss the relationships with the auditors.

5. Annually, meet separately with the external auditors to discuss any matters that the Joint Audit Committee or auditors believe should be discussed privately.

#### Reporting

1. Regularly report Joint Audit Committee activities, issues, and related recommendations to the CERS and KRS Boards of Trustees for ratification.
2. As needed, report Joint Audit Committee recommendations to the KPPA for implementation.
3. Review any other reports issued by the KPPA staff that relate to the responsibilities of the Joint Audit Committee.

#### Other

1. Facilitate open channels of communication between internal auditor, external auditors, and the KPPA.
2. Perform other activities related to this Charter as requested by the CERS or KRS Boards of Trustees; KPPA; or the Executive Management teams of the KPPA, CERS, or KRS.
3. Institute and oversee special investigations, as needed.
4. Annually, review and assess the adequacy of the Charter for the Joint Audit Committee.
5. Confirm annually that all responsibilities outlined in this Charter have been completed.
6. Evaluate the Joint Audit Committee's and individual members' performance on a regular basis.

## **VII. Responsibilities of Other Parties**

1. The auditors (internal and external) are responsible for planning and conducting audits.
2. The CERS and KRS Boards of Trustees are responsible for ratifying actions taken by the Joint Audit Committee.
3. KPPA management is responsible for implementing recommendations approved by the Joint Audit Committee and ratified by the CERS and KRS Boards of Trustees.
4. KPPA is responsible for the selection and hiring of the external auditor.
5. KPPA management is responsible for preparing and fairly presenting the financial statements in accordance with GAAP for governmental entities as issued by GASB, maintaining effective internal control over financial reporting, and ensuring KPPA complies with applicable laws, regulations, and other requirements.
6. The CERS and KRS Boards of Trustees are responsible for approval of the Annual Report.
7. KPPA is responsible for final approval and publishing of the Annual Report.

## VIII. Approvals

We, the undersigned of the Joint Audit Committee, CERS Board of Trustees, and KRS Board of Trustees do certify that this Charter was approved on the 16<sup>th</sup> day of June, 2022.

William Orma 7-18-2022  
Joint Audit Committee Chair Date

Betty A. Pendergrass 08/17/2022  
Board Chair Date  
County Employees Retirement System

Lyn Hufn 7-25-2022  
Board Chair Date  
Kentucky Retirement Systems

History: Initial Approval Date: November 16, 2021  
Amended: June 16, 2022