

## **TEACHERS' RETIREMENT BOARD AUDITS AND RISK MANAGEMENT COMMITTEE CHARTER**

### INTRODUCTION

The Audits and Risk Management Committee has been established to assist the Teachers' Retirement Board in fulfilling its fiduciary oversight responsibilities for:

- Financial Reporting and External Independent Financial Statement Audit,
- Risk Management Framework,
- Internal Control,
- Compliance, and
- Internal Audit.

### AUTHORITY

The Audits and Risk Management Committee shall have authority to:

1. Appoint, provide for the compensation of, and oversee the work of the independent certified public accounting firm employed by CalSTRS to audit the financial statements.
2. Retain and oversee consultants, experts, independent counsel, and accountants to advise the committee on any of its responsibilities or assist in the conduct of an investigation.
3. Request and provide oversight of audit, compliance, and investigation activities of financial, ethical, and/or fraud matters.
4. Provide all committee actions to the board for ratification or adoption.

### COMPOSITION

The committee shall be composed of a minimum of three (3) members, appointed by the chair of the board.

The committee members should collectively possess sufficient knowledge of audit, finance, investments, pension administration, information technology, governance, risk, and control or retain experts possessing the necessary qualities to advise the committee.

### MEETINGS

The committee will meet at least three times a year, with authority to convene additional meetings as determined by the committee chair in consultation with the board chair.

## RESPONSIBILITIES

The committee shall have the following responsibilities:

Financial Reporting and External Independent Financial Statement Audit:

- Oversee the reporting and integrity of all financial information reporting.
- Ensure the independence of the external independent financial statement auditor and approve all auditing and other attestation services. Pre-approve non-audit services performed by the external independent financial statement audit firm.
- Review the external independent financial statement auditors proposed financial statement audit scope and approach and approve the results of the work performed.

Risk Management Framework:

- Review and recommend to the board changes, when necessary, to enterprise-wide risk management framework.
- Approve the Enterprise Risk Management Program Charter.
- Adhere to the Risk Management Policy established by the board.
- Review emerging, existential, and enterprise level risks that may impact strategic objectives and report those risks to the board.

Internal Control:

- Oversee the assessment of internal administrative and accounting controls by both the external independent financial statement auditor and internal auditors, including the external independent financial statement auditor's management letter for any identified internal control deficiencies and management's progress in addressing those deficiencies.
- Ensure management maintains an effective system of internal controls and provides the mechanisms for periodic assessment of the system of internal controls.

Compliance:

- Oversee the design and implementation of an Enterprise Compliance Services (ECS) Program that supports business areas in identifying, evaluating, monitoring, and mitigating risks of noncompliance with applicable laws, regulations, and CalSTRS policies, and promote business ethics. Two areas of compliance are managed by other business areas. Conflict of interest reporting is administered by the Office of Legal Ethics and Accountability, and compliance and ethics activities related to the Investments Branch are managed by Investment Compliance. ECS will continue to be a resource for these business areas and support their compliance efforts, as needed.
- Approve the Enterprise Compliance Services Program Charter.

- Review the effectiveness of the system for monitoring compliance with applicable laws, regulations, and policies.
- Receive progress reports on Enterprise Compliance Services Program activities.
- Oversee CalSTRS’ policies for the receipt and handling of allegations of suspected misconduct and receive reports on a periodic and as-needed basis regarding significant substantiated allegations.

Internal Audit:

- Participate in decisions regarding the appointment, removal, and performance of the chief auditor, including the competencies and qualifications necessary for the position.
- At least annually, ARM Committee leadership meet with the chief auditor without the presence of management.
- Discuss the independence of the internal audit function and if necessary, address the existence of actual or potential impairments.
- Review and approve the Audit Services Charter, the internal audit strategy, resource plan, and organizational structure, as needed.
- Approve the annual risk-based audit plan, any major changes to the plan, and the internal audit function’s performance objectives. Review the internal audit activities and results of its services relative to the plan, including co-sourced assurance and advisory services with other external audit firms.
- Review the effectiveness and efficiency (performance) of the internal audit function through its quality assurance and improvement program. Discuss the results of assessments and approve any planned actions to address identified deficiencies and opportunities for improvement.
- Authorize the chief auditor to serve as the primary liaison and provide the appropriate forum for handling all matters related to audits, examinations, investigations, or inquiries of the California State Auditor and other appropriate State or Federal agencies.
- Ensure any engagements with and results from external audit firms are coordinated, managed, and reported by Audit Services.

Overall, the committee shall report to the board on all activities, findings, and recommendations of the committee and conduct work in a manner appropriately aligned with the CalSTRS strategic plan, including its mission and vision.

*History: Amended February 7, 2007; Revised April 1, 2009; Revised February 5, 2014; Amended February 6, 2014 [to delineate Board and Committee responsibility in the oversight of risk], Revised September 15, 2016; Revised May 9, 2019, Revised September 2022 to add strategic plan link.*