

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.
- ~~External Audit of the Financial Statements, and~~
- ~~Engagements with Other External Firms.~~

Commented [CCD1]: Removed but covered this under Responsibilities - 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 ~~must be~~ to the board for ratification ed or adoption ed by the board to be effective.

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: ~~y for the following~~

Financial Reporting and External Independent Financial Statement Audit:

- Oversee~~ing~~ the reporting and integrity of all financial information reporting.
- Ensure~~ing~~ the independence of the external independent financial statement auditor and approve~~ing~~ all auditing and other attestation services. Pre-approve~~ing~~ non-audit services performed by ~~an~~ the external independent financial statement audit firm.
- Review~~ing~~ the external independent financial statement auditors proposed financial statement audit scope and approach and approve the results of the work performed. ~~including the coordination efforts with management and internal audits.~~

Risk Management Framework:

- Review~~ing~~ and recommend~~ing~~ to the board changes, when necessary, to enterprise-wide risk management framework ~~processes, governance, and related policies or infrastructure (framework).~~
- Approve the Enterprise Risk Management Program Charter.
- Adhere~~ing~~ to the Risk Management Policy established by the board.
- Review~~ing~~ emerging, existential, and significant enterprise level risks that may impact strategic objectives ~~specific to the area of responsibility of the committee~~ and reporting those risks to the board.

Internal Control:

- Oversee~~ing~~ 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~~ing~~ management maintains an effective system of internal controls and provides the mechanisms for periodic assessment of the system of internal controls.

Compliance:

- Oversee~~ing~~ the design and implementation of the an Enterprise Compliance Services (ECS) Program that supports business areas in identifying, evaluating, monitoring, and mitigating risks of noncompliance with applicable laws, regulations, CalSTRS including the policies, and procedures to help prevent and detect violations of law and ~~to~~ 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

Commented [CCD2]: Arranged ARM Responsibilities by Oversight Categories

Commented [CCD3]: Added responsibility to align with Enterprise Risk Management and Compliance Services Maturity Plan

Commented [CCD4]: Revised to align with the Enterprise Risk Management Framework

Commented [CCD5]: Added to reflect current practice

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.
- Reviewing the effectiveness of the system for monitoring compliance with applicable laws, regulations, and policies.
- ~~Reviewing the annual compliance plan and~~ Receiving periodic progress reports on Enterprise Compliance Services Program activities.
- Overseeing CalSTRS' policies ~~and procedures~~ for the receipt and handling of allegations of suspected misconduct and receiving reports on a periodic and as-needed basis regarding significant substantiated allegations ~~reports received~~.

Commented [CCD6]: Revised to align with Enterprise Risk Management Framework

Commented [CCD7]: Added responsibility to align with the Enterprise Risk Management and Compliance Services Maturity Plan

Internal Audit:

- ~~Overseeing~~ Participate in decisions regarding the appointment, removal, and performance work of the chief auditor, including the competencies and qualifications necessary for the position, ~~and the work of Audit Services.~~
- 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 approving the Internal-Audit Services Charter, ~~as needed. Review with the Chief Auditor the~~ internal audit strategy, resource plan, and organizational structure ~~as needed, activities, of the internal audit function.~~
- Approving the annual risk-based audit plan, ~~and all any~~ major changes to the plan, and the internal audit function's performance objectives. Reviewing the internal audit activities and results of its services ~~activity's performance~~ relative to ~~it's~~ the plan, including co-sourced assurance and advisory services with other external audit firms.
- Reviewing the effectiveness and efficiency (performance) of the internal audit function through ~~a~~-its quality assurance and improvement program. Discuss the results of ~~a~~ periodic assessments and approve any planned actions to address identified deficiencies and opportunities for improvement, ~~quality assurance review, as required by the Standards.~~
- Authorize the chief auditor to serving as the primary liaison and providing 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.

Commented [CCD8]: Added responsibility to comply with new audit standards (6.3) and removed language related to Audit Services since already addressed elsewhere in ARM Charter.

Commented [CCD9]: Added responsibility to comply with new audit standards (6.3)

Commented [CCD10]: Added responsibility to comply with new audit standards (7.1)

Commented [CCD11]: Updated to address areas that require approval from ARM and removed language that is covered elsewhere in ARM charter or will be addressed in Audit Services Charter.

Commented [CCD12]: Updated language for improved clarity with annual approval requirements outlined in new audit standards (6.3 & 8.3)

Commented [CCD13]: Updated language for improved clarity with new audit standards (8.3 and 8.4)

- ~~• Periodically assess the committee's effectiveness.~~

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.

- ~~• Reporting to the board on all activities, findings, and recommendations of the committee.~~
- ~~• Conducting committee's 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.

Commented [CCD14]: Removed since the board assesses its performance which encompasses the effectiveness of its committees.