



Maryland State Retirement and Pension System Charter for the Audit Committee

DUTIES AND RESPONSIBILITIES

1. The Audit Committee (“committee”) shall consist of at least five members of the Board, and at least one of whom shall be an elected member. A majority of the members of the committee shall have financial or management expertise.
2. The committee shall meet four times per year, but may meet more or less frequently as needed, and is subject to the Open Meetings Act.
3. The primary purpose of the committee is to assist the Board in fulfilling its oversight responsibilities with respect to:
 - a. The financial reporting process;
 - b. The system of risk management;
 - c. The system of internal control;
 - d. The internal and external audit functions; and
 - e. Compliance with laws, rules, regulations, and policies.
4. The committee’s responsibility is one of oversight, recognizing that the Agency is responsible for preparing the Comprehensive Annual Financial Report (CAFR), providing for external audits of the System’s financial statements, conducting internal audits of Agency operations, and providing for audits of local government employers while the Legislative Auditor is responsible for statutorily mandated audits.
5. The committee shall make recommended changes to this charter.

Internal Controls

6. The committee shall:

- a. Provide for and oversee the periodic assessment of the system of internal control by internal and/or external auditors;
- b. Review recommendations for improving internal controls and evaluate their cost benefit; and
- c. Review and discuss with staff the Agency's efforts to improve the system of internal control.

Risk Assessment

7. The committee shall:

- a. Provide for and oversee the periodic assessment of the system of risk management by internal and/or external auditors; and
- b. Review and discuss with staff the Agency's major risk exposures (whether financial, operating, or otherwise) and the measures the Agency has taken to monitor, measure, and control such exposures, including the guidelines and policies that govern the process by which risk assessment and management is undertaken and elicit recommendations for the improvement of the Agency's risk assessment and mitigation procedures.

Internal Audit

8. The committee shall:

- a. Meet at least annually with the Executive Director and the chief internal auditor to review and approve the organizational structure and audit plans;
- b. Review and approve the Internal Audit Charter every three years;
- c. Monitor and recommend to the Executive Director and the Board the staffing resources for the Internal Audit Division to allow for the proper execution of its duties and responsibilities;
- d. Ensure there are no unjustified restrictions or limitations on the internal audit function;
- e. Review the internal audit findings and recommendations, management's responses, and actions taken to implement the audit recommendations;
- f. Recommend to the Board, in consultation with the Executive Director, the appointment or dismissal of the chief internal auditor;

- g. Review the effectiveness of the internal audit function, every two years; and
- h. Evaluate the performance of the chief internal auditor, at least annually. The committee may consult with the Executive Director and senior staff, as deemed appropriate.

External Audit

9. The committee shall:

- a. Review the appointment of all external audit, attestation and other audit services retained under the direction of Internal Audit;
- b. Review the appointment of the external auditor appointed by the state and oversee the work performed;
- c. Review and confirm the independence of external auditors retained by and under the direction of Internal Audit and the external auditor appointed by the state;
- d. Review the external auditor's proposed audit scope and approach, including coordination of audit effort with Internal Audit; and
- e. Review the findings and recommendations of the external auditor, management's responses and actions taken to implement the audit recommendations.

Financial Statements

10. The committee shall:

- a. Review with the external auditor significant accounting and reporting issues and their impact on the Agency's financial statements;
- b. Review with staff and the external auditors the results of the annual financial statement audit, including any difficulties encountered and any significant adjustments proposed by the auditors;
- c. Review the draft annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles prior to inclusion in the CAFR; and

- d. Review all significant recommendations by the external auditor for improved financial reporting and internal control.

Compliance

11. The committee shall:

- a. Review the findings and recommendations of any examination by regulatory agencies, including the legislative auditors, management's responses and actions taken to implement the audit recommendations;
- b. Ensure that internal audits include compliance reviews with applicable laws, regulations, rules, Board and management policies and directives and generally accepted business practices;
- c. Provide a forum for the resolution of all disputes between management, participating employers and the internal and/or external auditors regarding the financial reporting process, risk assessment, internal control and other compliance issues;
- d. Review compliance with the Board's governance, benefits administration, communications, investment, finance, and other key policies;
- e. Review reports from the Chief Investment Officer regarding compliance with the Investment Division Code of Ethics; and
- f. Ensure the existence of a process for communicating the State Ethics Laws to staff and the Board.

MONITORING AND REPORTING

12. The committee shall:

- a. Report to the Board about committee activities, issues, and related recommendations; and
- b. Provide an open avenue of communication between internal audit, the external auditors, staff, committees of the Board, and the Board.

13. Keep minutes of its meetings and ensure the minutes are made available to all trustees. Open session minutes of the committee shall be open to public inspection in accordance with the Open Meetings Act.

SELF-EVALUATION

14. The committee shall:

- a. Provide a process whereby the committee members conduct a self-evaluation to help ensure continuous improvement of the committee's effectiveness. The purpose of the self-evaluation process is to assist committee members in assessing the committee's effectiveness and to improve its oversight responsibilities with respect to accounting and financial reporting, compliance, and the internal and external audit functions.
- b. Conduct a self-evaluation at least once every two years. The chair may approve a one-year extension in extenuating circumstances.

