

## STATE COMPENSATION INSURANCE FUND

### INTERNAL AUDIT ACTIVITY CHARTER (Amended March 17, 2011)

This charter sets forth the purpose, authority, and responsibilities of the Internal Audit Department at State Compensation Insurance Fund (State Fund). It provides the framework for the activities of the Internal Audit Department. The Charter is an adjunct to Corporate Guideline 02-20-GM.

#### **MISSION/PURPOSE**

The mission of the Internal Audit Department is to provide independent, objective assurance and consulting services designed to add value and improve State Fund's operations. Internal Audit will help State Fund accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, compliance and governance processes. By accomplishing its mission, the Internal Audit Department will assist the Board and Executive management in fulfilling its oversight responsibilities.

#### **AUTHORITY**

The Chief Audit Executive and Internal Audit Department staff as determined by and under the direction and control of the Internal Audit Program Manager is authorized to:

- Manage and conduct the internal audit activity, including determining the risk-based priorities for such activities, consistent with the organization's objectives.
- Select audit subjects, determine scopes of work, allocate resources, set frequencies, establish follow-ups on recommendations, and apply the techniques required to accomplish audit, investigation and control objectives.
- Exercise full and unrestricted access to all functions, records, property, premises, agents, and personnel, and all documents and information of State Fund that the Chief Audit Executive considers necessary for the Internal Audit Department to meet its responsibilities.

- Have full and free access to the Audit Committee of the State Fund Board of Directors.
- Work with personnel throughout the organization and with external vendors in performing Internal Audit responsibilities.

The Chief Audit Executive and Internal Audit Department staff are not authorized to:

- Perform any operational duties for State Fund.
- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any State Fund employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

### **RESPONSIBILITIES**

The Chief Audit Executive has the responsibility to:

- Periodically review with the Audit Committee and management the Internal Audit Charter and mission, and recommend changes to support State Fund's organization, objectives and services.
- Develop an Annual Internal Audit Plan using risk-based methodology for review and approval by the Audit Committee. Material changes to the Annual Internal Audit Plan shall be submitted for review and approval by the Audit Committee.
- Execute the Annual Internal Audit Plan, as approved and revised.
- Complete special projects or activities requested by the Audit Committee or management.
- Issue periodic reports to the Audit Committee and management summarizing the results of audit activities.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter. Retain independent advisors in the event the Internal Audit staff does not have the capacity, skills, experience or independence necessary for a particular audit. Prior to the retention, obtain approval from the Audit Committee Chairperson to be reported to the Audit Committee at the next Audit Committee meeting.
- Consider and coordinate the scope of work of the independent auditors and regulators,

as appropriate, for the purpose of providing optimal audit coverage and support for State Fund.

- Consult with management on matters, beyond Internal Audit's assurance services, such as the design of internal controls, business controls, risk management activities and corporate governance processes.
- Conduct internal fraud investigations and report trends and significant findings on all investigations conducted by either Internal Audit or Human Resources.
- Establish a quality assurance and improvement program for the Internal Audit Department and report findings to Audit Committee semi-annually.

### **INDEPENDENCE**

The internal audit activity must be independent of internal influences, and Internal Auditors must be objective in the performance of their work.

To provide for the independence of the Internal Audit Department, its staff will report to the Internal Audit Program Manager, who reports to the Senior VP of Internal Affairs/Chief Audit Executive who reports administratively to the General Counsel and functionally to the Audit Committee. In the event one or more of the individuals in the line of authority is the target of an audit or investigation then the Internal Audit Department staff will not report to those individual(s) and may report if necessary directly to the Audit Chairperson.

### **ACCOUNTABILITY**

The Chief Audit Executive shall be accountable to the Audit Committee, the General Counsel, and the Executive management of State Fund.

### **STANDARDS OF AUDIT PRACTICE**

The Chief Audit Executive and staff of the Internal Audit Department shall comply with the Institute of Internal Auditors International (IIA) Professional Code of Ethics and follow IIA's standards.

**REVIEW**

This Charter shall periodically be reviewed with the Audit Committee, the General Counsel and the Chief Audit Executive for the purpose of updating the provisions of the Charter. Any suggested changes to the Charter are subject to review by the Audit Committee.

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Chief Audit Executive

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General Counsel

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Chief Executive Officer

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Dated

