

### Board Governance

#### 1.6 – Finance and Audit Committee of the Board

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November 18, 2021; November 9, 2023

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#### Policy

The Finance and Audit Committee (Committee) is a standing committee of the Board of Trustees with duties and responsibilities as set forth in this policy. The Committee is responsible for overseeing the integrity of the System's budgeting, financial accounting and reporting, audits, internal controls, and risk management. It coordinates communication to and within the Board of Trustees, the System's external auditors, the System's internal auditors and System management. The Committee recommends actions to the Board of Trustees, but has no independent authority to make final decisions.

#### Statutory/Legal Provisions

- [5 M.R.S. §§ 17103](#), [17104](#) and [17109](#).

#### Membership, Expertise and Meetings of the Finance and Audit Committee

##### *Membership*

The Committee consists of at least three members of the Board of Trustees, at least one of whom must be qualified through training or experience in the field of investments, accounting, banking or insurance, or as actuaries. Committee members will be appointed or removed by the Board Chair with the concurrence of the number of Board members required by law for Board action. The Board Chair may appoint him/herself as a Committee member, but may not serve as Chair of the Committee. Appointments are for two years and may be renewed without limit. Vacancies within a term shall be filled in the same manner. The Committee shall select the Chair and Vice Chair in February of each year.

##### *Expertise*

The members of the Committee, individually or as a group, must, in the Board's determination, possess sufficient financial knowledge and experience to understand the nature of the work performed by the System's external and internal auditors and the reports prepared by them. If the Committee does not have the necessary knowledge and expertise, the Board must provide the Committee with, or authorize the Committee to obtain, an external advisor from a source independent of both System staff and the System's external auditors.

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### ***Meetings***

The Committee shall meet quarterly or as circumstances require, but at least twice in each fiscal year.

## **Responsibilities of the Finance and Audit Committee**

### ***General Responsibilities***

The Committee is responsible for oversight of the System's budgeting, financial reporting, external audits, and internal audit functions (which may be outsourced), including periodic reviews of external and internal audit work plans and reports. The Committee also oversees the System's risk management. The Committee is responsible to inform the Board as needed on matters that it oversees, but at least twice in each fiscal year.

### ***Annual Budget***

The Committee is responsible to:

- Review the annual budget prior to the beginning of the fiscal year;
- Make any adjustments deemed necessary by the Committee; and
- Recommend approval of the annual budget to the Board.

### ***Annual Audit***

The Committee is responsible to:

- Review the audit plan, in advance of the audit;
- Review proposed adjustments to the financial statements;
- Assess the financial statements as a whole;
- Review with the Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer, with or without the presence of the external auditor, the result of the auditor's annual audit and plans to address any comments therein; and
- Report to the Board on the financial statements and audit shortly after the completion of the audit.

### ***Internal Controls***

The Committee is responsible to assure, by reports from and/or discussions with management and/or the internal auditor and/or the external auditor that:

- the System's internal controls, including without limitation fraud controls, and procedures for its operations are adequate and effective;
- the System's internal controls and procedures are evaluated with appropriate frequency to assure that they continue to be adequate and effective;

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- significant defects in or failures of the System's internal controls, including without limitation any instance of fraud or misuse of System data or information, are reported to the Committee in a timely manner and that corrective actions are undertaken and completed in a timely manner; and
- where such reports are from and/or discussions with management, the internal and/or external auditor, as the Committee deems appropriate, is aware of them and either does not have a view different from management's or that any different view is made known to the Committee.

### ***Information, Concerns and Complaints***

The Committee is responsible to oversee the establishment of procedures by which information, concerns and complaints regarding accounting, internal controls, and auditing matters are received, evaluated, and responded to by management and/or the Committee itself. Where the procedure calls for or permits the submission of such information, concerns and complaints to management, it must also require management to report to the Committee at appropriate intervals on such submissions and their handling.

The Committee is responsible to establish a procedure for the confidential and/or anonymous submission by MainePERS employees to the Committee itself of concerns regarding accounting, internal controls or auditing matters and for response by the Committee.

### ***Risk Management***

The Committee provides oversight to the System's management of risk. Management shall report at least annually to the Committee on the significant risks facing the System and the steps taken to address those risks. The Committee shall obtain reasonable assurance that management has identified, analyzed, and established a framework for addressing the key risks the System faces.

## **External Auditor**

### ***Engagement, Evaluation, Compensation, and Termination***

The Committee shall oversee the process by which the external auditor is hired, evaluated, and terminated as well as the terms of the contract of engagement. The Committee shall ensure that the external auditor is engaged through an open bid process with a written contract for a term not to exceed five years. The contract may be extended up to a total period of time under contract of ten years. The Committee shall evaluate the external auditor performance at the annual exit conference and formally at every contract extension. The Committee shall recommend the engagement, compensation and termination of the external auditor to the Board.

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### ***Auditor Rotation and Future Employment at System***

The Committee shall ensure, in the case of the continuing engagement of an external audit firm that either the lead or the concurring audit partner is rotated at least every five years and that, once rotated, no lead or concurring partner serves again on the System's audit for three years. When the Committee finds that the five-year requirement is impracticable and that waiving it will not compromise the audit function or the System, the Committee may waive the requirement. A waiver may be for a one-year period only, though a waiver may be renewed. No partner shall serve on the System's audit for more than eight consecutive years.

An employee of the external auditor who served on the MainePERS audit team may not become an employee of the System within one year of the annual audit unless the Committee has reviewed the request to determine that no conflicts exist and recommends to the Board that the employment be approved.

### ***Meetings and Communication with Auditor***

The Committee shall meet with the external auditor for formal audit entrance and exit conferences, and whenever the Committee decides that a meeting is indicated. The Committee may include System management in all or part of any meeting with the auditors, but must meet with the auditor without management during at least one meeting in each fiscal year. The Committee shall direct the auditor to report any critical accounting or reporting issue or issue with management in a timely manner. The Committee is responsible to meet with the auditor whenever the auditor requests such a meeting. The Committee shall provide the external auditor with contact information that enables the external auditor to contact the Committee directly.

### ***Non-audit Services***

An external auditor who performs an annual audit of the System's financial condition may not provide any non-audit services to the System in the fiscal year that a given financial audit covers or during the period in which the annual financial audit is being performed, unless the Committee recommends to the Board that the provision of such services be approved.

## **Internal Auditor**

### ***Staffing the Internal Audit Function***

The internal audit function may be staffed by one or more System employees or by one or more independent audit firms. If the Chief Executive Officer determines that one or more independent audit firms should be engaged for this function, those firms will be selected using the System's competitive bid process.

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### ***Regular Reports***

The Internal Auditor shall provide an annual work plan to the Committee and quarterly reports of progress thereon and as to other matters of which the internal auditor believes the Committee should be aware. In the case of outsourced internal audit functions, the Chief Executive Officer shall provide the annual work plan and quarterly reports of progress. The Chief Executive Officer may delegate this responsibility to the Chief Operating Officer or the Chief Financial Officer

### ***Auditor Access to the Finance and Audit Committee***

The Internal Auditor shall provide reports directly to the Committee. In the case of an outsourced internal audit function, these reports will be provided by the Chief Executive Officer or, if designated, the Chief Operating Officer or Chief Financial Officer. The Internal Auditor shall also have direct access to the Committee when the Internal Auditor deems it necessary.

### ***Particular Projects and Reports***

The Committee may direct an internal audit examination and/or report to the Committee itself and/or to management on any System matter that the Committee believes to require such examination and/or report.