



**DENVER PUBLIC SCHOOLS**  
**FINANCE AND AUDIT COMMITTEE CHARTER**  
**BOARD OF EDUCATION POLICY BEDA-A**

# Table of Contents

- I. Purpose Statement ..... 4
- II. Audit Committee Roles and Responsibilities ..... 5
  - A. Financial and Other Experience Considerations ..... 5
  - B. General Duties ..... 6
  - C. Code of Conduct..... 7
  - D. Document Retention and Destruction Policy ..... 7
  - E. Significant Issues, Estimates and Judgments..... 7
  - F. Internal Audit ..... 8
    - 1. Internal Audit (IA) Manager: ..... 8
    - 2. Internal Audit Charter: ..... 8
    - 3. Audit Plan: ..... 8
    - 4. Review of Audits: ..... 8
    - 5. Follow-up Audits: ..... 8
    - 6. Independence: ..... 8
  - G. Internal Control: Accounting Policies and Procedures ..... 8
  - H. Fraud and the Responsibility of the Audit Committee ..... 8
  - I. Whistle-Blower Tracking ..... 9
  - J. External Auditors ..... 9
  - K. Compliance ..... 9
  - L. Enterprise Risk Management..... 10
- III. Membership..... 11
  - A. Establishment and Composition ..... 11
  - B. Qualifications and Limitations ..... 11
  - C. Terms of Members..... 11
    - 1. Board members..... 11
    - 2. Citizen members ..... 11
  - D. Resignation..... 11
  - E. Vacancies ..... 12
  - F. Removal from Committee..... 12
  - G. Compensation ..... 12

IV.	Appointments and Selections .....	12
A.	Date for Appointment or Designating Members .....	12
V.	Meetings .....	13
A.	Regular Meetings .....	13
B.	Executive Sessions.....	13
C.	Special Meetings .....	13
D.	Notice of Meetings.....	13
E.	Agenda and Minutes.....	13
F.	Attendance.....	14
G.	Compliance with Colorado’s Open Meetings Law .....	14
VI.	Annual Review of Committee Effectiveness .....	14
VII.	Amendments.....	15
A.	Amendment .....	15
B.	Additional Amendments .....	15
VIII.	Policy Review and Revision .....	16
IX.	Sources.....	16
	Appendices.....	17

## **I. Purpose Statement**

Denver Public Schools (the “District”) is a political subdivision of the State, organized for the purpose of operating and maintaining a public K-12 educational program for school age children. The District is governed by a seven-member Board of Education (the “Board”). The Board’s primary functions are to provide for the general operation and personnel of the District, to oversee the property, facilities, and financial affairs of the District, and to establish policies for the District. The Finance and Audit Committee (“FAC” or “Committee”) was created as a standing committee by the Board in accordance with District Policy BEDA- Board Meetings, Repeal/Reenacted October 20, 2005. The policy states that the FAC shall adopt, subject to approval by the Board, a charter specifying the responsibility and authority of the Committee. This Charter has been crafted to define the advisory role played by the FAC to assist the Board in fulfilling its fiscal oversight responsibilities with integrity and reliability. The FAC does not assume any fiscal responsibilities of the Board. The Board and Superintendent retain the responsibility for the District’s financial condition and for decision-making in all matters of policy and operation.

It is the intention that this Charter incorporates best practices and advisories developed by organizations such as the American Institute of Certified Public Accounts (“AICPA”) and the Government Finance Officers Association (“GFOA”), however the charter must also reflect the objectives and tolerances of the District. The AICPA and GFOA both recommend the governing body of every state and local government should formally establish an audit committee or its equivalent by charter or other appropriate legal means. This policy has been drafted with reference to the guidance of the AICPA and the GFOA as of the date of adoption. It is understood that the AICPA and GFOA amend and modify their guidance over time. District staff shall periodically review the AICPA and GFOA best practice and advisories and recommend conforming modifications to this Charter as warranted.

This Charter will set forth the FAC members roles and responsibilities to assist the Board in fulfilling its oversight responsibilities and promote adherence to: (i) all applicable laws and recommended policies, procedures, and practices; and (ii) promoting attainment of best-in-class performance. The Charter is intended to enhance the effectiveness of the FAC in carrying out its responsibilities including information gathering, fact-finding, and making recommendations in the areas of:

1. Accounting, Audit, and Financial Reporting (Internal and External);
2. Internal Controls (Effectiveness and Efficiency of Operations, Reliability of Financial Reporting, and Compliance with Laws and Regulations); and
3. Other responsibilities as contemplated by the Board of Education’s Debt, Derivatives, and Investment and Cash Management Policies.

The work of the FAC shall be complementary to, and not comprise or infringe upon, the work of the Board's other standing committees.

Nothing in this Charter should be interpreted so as to limit the Board from exercising its full authority.

## **II. Audit Committee Roles and Responsibilities**

### **A. Financial and Other Experience Considerations**

In order to continuously improve upon the overall fiscal health of the District, the FAC in the performance of its duties and responsibilities shall possess knowledge of:

1. The District's instructional programs and educational improvement processes to include the Board's Theory of Action and the Denver Plan;
2. School finance in Colorado including the District's participation in the state's Interest Free Loan Program; and
3. Generally accepted accounting principles ("GAAP"), generally accepted auditing standards ("GAAS"), and generally accepted government auditing standards ("GAGAS").

If in the opinion of the members of the FAC, the FAC does not possess the necessary expertise to provide an informed recommendation to the Board, the FAC has the responsibility to procure the services to provide the necessary expertise.

In fulfilling their responsibilities, it is recognized that members of the FAC are not fulltime employees of the District. It is neither the duty nor responsibility of the FAC or its members to conduct "field work" or other types of auditing, legal, or accounting reviews or procedures. The District's Management is responsible for preparing the District's financial statements and the external auditors are responsible for auditing those financial statements.

Unless a member believes to the contrary (in which case, the member will advise the FAC of such belief), each member of the Committee shall be entitled to assume and rely on (1) the integrity of those persons and organizations within and outside the District that it receives information from and (2) the accuracy of the financial, legal, safety, health and environment, and other information provided to the FAC by such persons or organizations.

## B. General Duties

1. The FAC shall review and comment on the Accounting, Audit, and Financial Reporting functions within the District through an evaluation of the financial reports and other financial information used internally and provided by the District to any governmental body or the public. The FAC shall promote the highest standards of accounting, auditing, and financial reporting as represented by GAAP, GAAS, and GAGAS. Particular attention is to be given to:
  - a. The Comprehensive Annual Financial Report ("CAFR") prepared by the Financial Services Department and the Report on Single Audit including the respective reports of the independent auditors to be presented for acceptance by the Board; and
  - b. Other related information including but not limited to the management letter, financial statement findings, and federal award findings and questioned costs.
2. It shall have the power to approve contracts between regular board meetings subject to ratification by the full Board at the next regularly scheduled meeting, if the Superintendent/designee determines that time is of the essence and the contract needs to be acted upon before the next regularly scheduled board meeting.
3. Other fiscal duties and responsibilities as requested by the Board.
4. In the performance of its duties and responsibilities, the FAC may participate in evaluating, and recommending the selection of professional services secured through formal solicitation processes. Possible examples could include solicitations for commercial banking services or the District's auditor.
5. In all matters, the FAC is to benchmark the fulfillment of its duties and responsibilities utilizing the Colorado Department of Education's Financial Policies and Procedures Handbook, as may be amended, (C.R.S. 22-44-204(3)), and the Government Finance Officers Association's collection of Best Practices and Advisories.
6. In consideration of the duties and responsibilities as outlined above, select Best Practices and Advisories have been attached as respective Appendices.

### **C. Code of Conduct**

In order to promote ethical behavior and compliance with laws and regulations, the FAC in the performance of its duties and responsibilities shall periodically assess the District's code of conduct/ethics against the Board Policies BC -School Board Member Conduct and GBEA - Staff Ethics/Conflict of Interest to ensure that it is up-to date and adequately communicated to all District employees. The FAC shall report to the Board that the review of the code of conduct/ethics was completed and recommended amendments, if any shall be presented to the Board for approval.

### **D. Document Retention and Destruction Policy**

In order to ensure compliance with legal, tax and regulatory requirements, the FAC in the performance of its oversight duties and responsibilities shall periodically review Board Policy EHB – Data/Records Retention with the Office of General Council. The FAC shall report to the Board that the review of the policy was completed and amendments, if any as recommended by the Office of General Council shall be presented to the Board for approval.

### **E. Significant Issues, Estimates and Judgments**

The FAC shall discuss with management, significant financial reporting issues and judgments made in connection with the preparation of the District's financial statements, including:

1. Any significant changes in the District's selection or application of accounting principles;
2. Significant estimates and judgments (for example, pensions and other post-employment benefits, self-insurance and derivatives);
3. Major issues as the to the adequacy of the District's internal controls; and
4. Special steps adopted in light of material weaknesses, and any accounting adjustments that were noted or proposed but were passed.

## **F. Internal Audit**

- 1. Internal Audit (IA) Manager:** In order to preserve the independence of the IA function, the Chair of the FAC shall approve all decisions regarding the, appointment, or removal of the Internal Audit Staff as well as the compensation and performance evaluation of the Internal Audit Department Manager.
- 2. Internal Audit Charter:** The FAC shall periodically review and approve the Internal Audit Department Charter.
- 3. Audit Plan:** The FAC shall review and accept the annual Internal Audit Plan (the “Plan”). The Plan is intended to prioritize and allocate the resources of the Internal Audit Department consistent with the goals of the District.
- 4. Review of Audits:** The FAC shall receive and review significant issues included in the completed audit reports, evaluating internal controls and risks, prepared by the Internal Audit Department and management’s response to such issues.
- 5. Follow-up Audits:** The FAC shall periodically receive from the Internal Audit Department a summary of the findings from completed audit reports including the original issues, Internal Audit’s recommendations, management’s plans to address the issues, and the status of the implementation of the recommendations.
- 6. Independence:** The FAC shall, at least annually, receive from the Internal Audit Manager a written confirmation of Internal Audit’s organizational independence in accordance with International Standards for the Professional Practice of Internal Auditing (Standards).

## **G. Internal Control: Accounting Policies and Procedures**

Periodically, the FAC will review District accounting policies and procedures with management and Internal Audit. During these reviews accounting controls will also be discussed and reviewed.

## **H. Fraud and the Responsibility of the Audit Committee**

In order to take an active role in the prevention, deterrence, and detection of fraud, the FAC shall periodically review the District’s antifraud programs and controls in place to identify, prevent, and detect fraud. In fulfilling its oversight responsibilities the FAC shall ensure that there is an effective process in place to investigate potential fraudulent activities. The FAC assumes neither responsibilities nor consequences associated with fraudulent activities uncovered in the course of evaluations.



## **I. Whistle-Blower Tracking**

In order to fulfill its oversight responsibilities, the FAC shall review the policies and procedures for the receipt, retention, and treatment of complaints received by the District regarding accounting, internal accounting controls, auditing matters, suspected fraud, or waste and abuse that may be submitted by a party internal or external to the organization.

## **J. External Auditors**

The FAC shall administer the process which would result in the appointment of the external auditor and submit their recommendation for the appointment of the external auditor to the Board, in accordance with the guidelines set forth in Policy DIE- Audits/Financial Monitoring.

The FAC shall also carry out the following responsibilities with regard to external auditors:

1. Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit;
2. Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors;
3. Meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately;
4. Review all material written communications between the external auditors and management, such as the management letter, management representation letter, and a schedule of unadjusted differences; and
5. Review with management and the external auditor at the completion of the annual examination:
  - a. The comprehensive annual financial report (CAFR) and related footnotes and;
  - b. The Report on Single Audit.

## **K. Compliance**

The FAC shall carry out the following responsibilities with regard to District compliance with applicable laws and regulations:

1. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance;
2. Review the findings of any examinations by regulatory agencies, and any auditor observations; and
3. Review with the general counsel the status of pending claims, litigation and other legal matters on a periodic basis, but no less frequently than once a year on a comprehensive basis.

## **L. Enterprise Risk Management**

The FAC shall carry out the following responsibilities with regards to Enterprise Risk Management (ERM):

1. Provide oversight of ERM including evaluating the District's overall ERM strategy and influencing the entity's risk philosophy and appetite;
2. Inquire of management, the chief audit executive, and external auditors about significant risks or exposures facing the organization, assess steps management has taken or proposes to take to minimize such risks, and periodically review compliance with such steps; and
3. Review with general counsel, external auditors, external counsel, and the chief audit executive legal and regulatory matters that in the opinion of management may have a material impact on the financial statements, related organization compliance policies and programs, and reports received from regulator.

### **III. Membership**

#### **A. Establishment and Composition**

The FAC shall be comprised of five members, three members from the Board of Education, including the Treasurer of the Board who will serve as the Chair and two citizen members.

1. Such citizen members shall neither be Board members nor district employees.
2. The Superintendent is to recommend to the FAC no fewer than two candidates for each vacancy.
3. The Board reserves the right to also offer candidates for recommendation. Any recommendation(s) would:
  - i. Identify the candidate(s) and
  - ii. Certify the candidate(s) meet the criteria envisioned by Section II.A herein and address any other relevant credentials warranting consideration.
4. The Chair of the FAC is to advance one candidate for each vacancy for consideration by the entire Board.
5. Periodically the FAC members may vote on advancing a recommendation to the Board or approving a contract to be ratified by the full Board at its next regular meeting. The citizen members are non-voting members of the FAC.

#### **B. Qualifications and Limitations**

The citizen members of the FAC shall be impartial observers of the District's finances. Any community member considered for the FAC shall be independent from any relationship that, in the opinion of the Board, would interfere with the exercise of one's independent judgment as a member of the Committee. The Board shall ensure the FAC possesses recognized expertise and experience necessary to competently fulfill the duties and responsibilities outlined above. Membership preference is granted to Denver residents.

#### **C. Terms of Members**

1. **Board members** shall be appointed in a manner consistent with Board Policy BDA – Organizational Meeting.
2. **Citizen members** shall be appointed by the Board for a term of two years and shall be eligible for reappointment for one additional term. Initially there will be one two year term and one three year term. Thereafter, the term for each member shall be for a period of two years.

#### **D. Resignation**

Any FAC member may resign by giving written notice to the Board. The resignation of any FAC member shall take effect upon receipt of said notice's stated termination date.

### **E. Vacancies**

Any vacancy, regardless of cause, shall be filled by the Board acting upon a nomination coming from the remaining FAC members that assures that the composition required in the section above is honored. If the vacancy is being filled for a term unfulfilled, that person appointed shall serve for the duration of the un-expired term of the member whose resignation created the vacancy.

### **F. Removal from Committee**

Members of the FAC serve at the pleasure of the Board. A FAC member may be removed by the Board at any time and at the Board's sole discretion. The Board shall consider a recommendation from the FAC to remove any member who fails to attend three consecutive scheduled FAC meetings and who fails to provide the Chair of the FAC prior notification.

### **G. Compensation**

FAC members shall serve on a voluntary basis without any compensation. As approved by the Board, the FAC may have a budget to cover all reasonable, incidental costs incurred in the performance of the FAC's duties and responsibilities.

## **IV. Appointments and Selections**

### **A. Date for Appointment or Designating Members**

The Board shall appoint or designate members to any open positions on July 1 of each year and to any vacant positions as necessary.

## **V. Meetings**

### **A. Regular Meetings**

Regular meetings of the FAC shall be held every month a Board of Education meeting is held.

1. A meeting schedule for the next twelve months is expected to be established during the first annual meeting of the FAC.
2. Given it is the express intent of the Board to facilitate communication between the District and all concerned, it is expected all meetings of the FAC be public.
3. Subcommittees may be established to meet outside of the FAC regular meeting times; e.g. break-out study sessions; endeavors requisite to secure professional services; or otherwise fulfill the duties and responsibilities of the FAC. Subcommittee membership may be comprised of community volunteers with the requisite expertise to fulfill subcommittee's duties and shall include at least one FAC member. Periodic updates from these subcommittees are to be included on each FAC meeting agenda.

### **B. Executive Sessions**

The FAC may conduct executive sessions as deemed necessary and in accordance with Board Policy BEDA.

### **C. Special Meetings**

Special meetings may be called by the Chair of the FAC, with a minimum of seven business day's advance notice given to all FAC members.

### **D. Notice of Meetings**

Unless otherwise specifically provided, regular and special meetings shall be preceded by written notice, posted at the District offices at least three business days in advance. The notice shall include the meeting time, location, a description of any matters for which member action may be requested and a description of the purpose or purposes for which the meeting is called.

### **E. Agenda and Minutes**

Proposed agenda items are to be submitted to the Chair at least ten working days before the meeting. The FAC may modify the agenda during the meeting, elect to address the topic in the future, or decide not to address the topic at any meeting. Meeting minutes shall be produced and distributed to members before the next scheduled meeting. Minutes shall be publicly available following each meeting.

## **F. Attendance**

Members: Members shall contact the Chair if unable to attend a meeting. Members who fail to attend three consecutive meetings are subject to removal in accordance with the membership guidelines established within this Charter.

Scheduled Visitors: Speakers may be scheduled to address the FAC on any topic of considerable District and community interest, subject to approval of the topic by the Chair. The Chair shall schedule and determine the duration of each presentation.

## **G. Compliance with Colorado's Open Meetings Law**

All meetings shall be open to the public with meeting time and location posted in compliance with Colorado's open meetings law, C.R.S. 24-6-401 et seq. Additionally, minutes of any meeting shall be open to public inspection in accordance with Colorado's open meetings law, C.R.S. 24-6-401 et seq.

## **VI. Annual Review of Committee Effectiveness**

The FAC shall confirm annually that all responsibilities outlined in this Charter have been carried out and will evaluate the Committee's and individual members' performance on a regular basis.

## **VII. Amendments**

### **A. Amendment**

The Charter may not be amended, repealed or altered except by action of the FAC and without the advance, written approval of the Board.

### **B. Additional Amendments**

Amendments to the Charter are subject to the following procedures and limitations:

1. Proposed amendments must not conflict with the Charter and must comply with all guidelines established by the District and applicable law.
2. Subject to the above, an amendment, repeal or alteration of the Charter may be proposed at any regular meeting or special meeting of the FAC.
3. Members shall be provided with notice at least one meeting in advance of any meeting the FAC plans to discuss and approve any proposed amendment, repeal, or alteration unless unusual circumstances exist and the FAC must temporarily approve an amendment, repeal, or alteration to meet emergency conditions. If such unusual circumstances occur, final ratification of any amendment, repeal, or alteration shall occur at the next meeting.
4. To be effective, proposed amendments must first be endorsed by a two-thirds majority vote of the voting membership of the FAC before being taken before the Board.

## **VIII. Policy Review and Revision**

This Charter shall be reviewed annually by the Chief Financial Officer and the Finance and Audit Committee, and may be amended by the Board of Education as conditions warrant.

Adopted:

LEGAL REF:

C.R.S. 22-44-204(3)

C.R.S. 24-6-401 et seq

C.R.S. 24-6-401 et seq

CROSS REF:

BEDA - Board Meetings

BDA – Board Organizational Meeting

GBEA – Staff Ethics/Conflict of Interest

CBFA-E – Superintendent’s Ethics

BC - School Board Member Conduct

EHB – Data/Records Retention

BCB – Board Member Conflict of Interest

DIE- Audits/Financial Monitoring

## **IX. Sources**

Government Finance Officers Association, “Best Practices – Audit Committees”

AICPA, “Audit Committee Toolkit, Government Organizations”

Sarbanes Oxley Act of 2002, Guidance only



## Appendices



## BEST PRACTICE

### **Audit Committees (1997, 2002, 2006, and 2008) (CAAFR)**

**Background.** Three main groups are responsible for the quality of financial reporting: the governing body,<sup>1</sup> financial management, and the independent auditors. Of these three, the governing body must be seen as “first among equals” because of its unique position as the ultimate monitor of the financial reporting process.<sup>2</sup> An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government’s financial reporting processes, internal controls, and independent auditors. An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management’s practices, and that the independent auditors, through their own review, objectively assess the government’s financial reporting practices.<sup>3</sup>

**Recommendation.** The Government Finance Officers Association (GFOA) makes the following recommendations regarding the establishment of audit committees by state and local governments:

- The governing body<sup>4</sup> of every state and local government should establish an audit committee or its equivalent;
- The audit committee should be formally established by charter, enabling resolution, or other appropriate legal means and made directly responsible<sup>5</sup> for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services.<sup>6</sup> Likewise, the audit committee should be established in such a manner that all accountants thus engaged report directly to the audit committee. The written documentation establishing the audit committee should prescribe the scope of the committee’s responsibilities, as well as its structure, processes, and membership requirements. The audit committee should itself periodically review such documentation, no less than once every five years, to assess its continued adequacy;<sup>7</sup>

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<sup>1</sup> For the purposes of this recommended practice, the term “governing body” should be understood to include any elected officials (e.g., county auditor, city controller) with legal responsibility for overseeing financial reporting, internal control, and auditing, provided they do *not* exercise managerial responsibilities within the scope of the audit. The term “governing body” also is intended to encompass appointed bodies such as pension boards.

<sup>2</sup> *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, “Overview and Recommendations.”

<sup>3</sup> Securities and Exchange Commission (SEC) Regulation 33-8220, “Background and Overview of the New Rule and Amendments.”

<sup>4</sup> For the purposes of this recommended practice, the term “governing body” should be understood to include any other elected officials (e.g., county auditor, city controller) with legal responsibility for overseeing financial reporting, internal control, and auditing, provided they do *not* exercise managerial responsibilities within the scope of the audit. The term “governing body” also is intended to encompass appointed bodies such as pension boards.

<sup>5</sup> Nothing in this recommended practice should be interpreted so as to limit the full governing body from exercising ultimate authority.

<sup>6</sup> Sarbanes Oxley Act, Section 301.

<sup>7</sup> *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit*

- Ideally, all members of the audit committee should possess or obtain a basic understanding of governmental financial reporting and auditing.<sup>8</sup> The audit committee also should have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose. Such a financial expert should through both education and experience, and in a manner specifically relevant to the government sector, possess 1) an understanding of generally accepted accounting principles and financial statements; 2) experience in preparing or auditing financial statements of comparable entities; 3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of audit committee functions;<sup>9</sup>
- All members of the audit committee should be members of the governing body. To ensure the committee's independence and effectiveness, no governing body member who exercises managerial responsibilities that fall within the scope of the audit should serve as a member of the audit committee;
- An audit committee should have sufficient members for meaningful discussion and deliberation, but not so many as to impede its efficient operation. As a general rule, the minimum membership of the committee should be no fewer than three;<sup>10</sup>
- Members of the audit committee should be educated regarding both the role of the audit committee and their personal responsibility as members, including their duty to exercise an appropriate degree of professional skepticism;
- It is the responsibility of the audit committee to provide independent review and oversight of a government's financial reporting processes, internal controls and independent auditors;<sup>11</sup>
- The audit committee should have access to the reports of internal auditors, as well as access to annual internal audit work plans;
- The audit committee should present annually to the full governing body a written report of how it has discharged its duties and met its responsibilities. It is further recommended that this report be made public and be accompanied by the audit committee's charter or other establishing documentation;
- The audit committee should establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters. Such procedures should specifically provide for the confidential, anonymous submission by employees of the government of concerns regarding questionable accounting or auditing matters.<sup>12</sup> The audit committee also should monitor controls performed directly by senior management, as well as controls designed to prevent or detect senior-management override of other controls<sup>13</sup>;
- The audit committee should be adequately funded and should be authorized to engage the services of financial experts, legal counsel, and other appropriate specialists, as necessary to fulfill its

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*Committees*, Recommendation 4.

<sup>8</sup> *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Recommendation 3. Continuity typically is a positive factor in achieving this goal, a fact that should be kept in mind when considering the appropriate length of service for audit committee members.

<sup>9</sup> Sarbanes-Oxley Act, Section 407.

<sup>10</sup> In certain limited instances, as noted later, the audit committee will need to meet privately to achieve its goals. If the audit committee constitutes a majority of the governing body, such private meetings may be hampered by "sunshine" laws and similar "open meetings" legislation.

<sup>11</sup> SEC Regulation 330-8220, "Background and Overview."

<sup>12</sup> Sarbanes Oxley Act, Section 301.

<sup>13</sup> *Internal Control – Integrated Framework: Guidance on Monitoring Internal Control Systems* (Discussion Document of the Committee of Sponsoring Organizations—COSO, 2007), page 10.

responsibilities<sup>14</sup>; and

- In its report to the governing body, the audit committee should specifically state that it has discussed the financial statements with management, with the independent auditors in private,<sup>15</sup> and privately among committee members,<sup>16</sup> and believes that they are fairly presented, to the extent such a determination can be made solely on the basis of such conversations.

Approved by the GFOA's Executive Board, October 17, 2008.

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<sup>14</sup> Nothing in this recommended practice should be interpreted so as to limit the full governing body from exercising ultimate authority.

<sup>15</sup> It is important that the audit committee be able to meet privately with the independent auditors, as needed, to ensure a full and candid discussion. Governments are urged to amend "sunshine" laws and similar "open meetings" legislation to permit such encounters in these limited circumstances.

<sup>16</sup> It is important that audit committee members be able to meet privately among themselves, as needed, to ensure a full and candid discussion. Governments are urged to amend "sunshine" laws and similar "open meetings" legislation to permit such an encounter in these limited circumstances.

# Benefits of Audit Committees and Audit Committee Charters for Government Entities

By: *Kenneth Shulman, Director of Internal Audit-New York State Insurance Fund and Tina Kim, Deputy Comptroller of Audit-Office of the New York City Comptroller*

The audit committee of a government unit plays a very important role. An audit committee established by a governmental unit offers the same strategic benefits that an audit committee offers to a publically traded company. Like a publically traded company that is accountable to its stockholders, a government unit is accountable to the taxpayers and the individuals and companies that use its services. At no time in recent memory is the need for an effective audit committee in government more important than now. With looming budget shortfalls, program cuts and employee layoffs, government units are wrestling with maintaining services with fewer resources. Government officials need to diligently assess the need for expenditures and ensure that revenues are received timely and managed correctly. There is simply no room for inefficiency or waste when these government units are faced with making difficult decisions about program cuts.

An audit committee offers an independent view of the government unit. It is not constrained by day-to-day concerns that unit managers are faced with. Rather, it is responsible for keeping the government unit focusing on identifying and mitigating risks, ensuring accountability and compliance, and establishing a governance structure. In this role, the audit committee is responsible for hiring the internal

and external auditors and overseeing the government unit's overall control environment, governance and management processes. Government unit managers are responsible for their subordinates, while the audit committee is responsible for the managers.

The audit committee should be made up of members that have a level of financial and programmatic knowledge to read and understand audit reports and comprehend the associated risks identified. Generally, the audit committee should contain between three and six members and should meet frequently enough to perform its oversight functions. Many organizations have established a minimum of four meetings per year. Additionally, the audit committee should have the authority to meet privately with the organization's external and internal auditors.

## **Assessing and Managing Risks**

One of the audit committee's main missions is to assess risks within the government unit. In meeting this responsibility, many audit committees are asking government managers to develop an enterprise risk management (ERM) plan. An ERM helps government units identify major risks that could affect their operations. Then government managers can prepare an action plan to mitigate those risks. The ERM plan helps the audit committee

ensure that managers are focusing on the right risks with the appropriate level of emphasis. While COSO discussed the benefits of ERM for many years, many times government managers were reluctant to take the time and to incur the cost to develop an ERM plan. However, now the audit committee may be the driving force to ensure that the government unit managers are identifying and addressing the most significant risks.

#### **Ensuring Accountability and Compliance**

The audit committee generally is responsible for hiring the governmental unit's external auditor, if an external audit is required. This relationship helps ensure independence between the external auditor and management. The external auditor directly updates the audit committee on the financial condition of the government unit and provides the recommendations for improving internal controls. This relationship helps to ensure that the audit committee is aware of the weaknesses and can work with management and hold management accountable for implementing recommendations to strengthen controls and procedures. The audit committee is also functionally responsible for the work of the government unit's internal auditor. Many internal auditors review different operational or programmatic areas than external auditors, so as not to duplicate each other's work. For example, internal auditors have a responsibility to audit governance, control and risk areas in the agency.

Generally, the external auditor's work includes the areas primarily focused on financial reporting (including information technology issues). Internal auditors typically report functionally to a member of management who is not responsible for the day-to-day operations. An internal auditor that reports to an audit committee fulfills this reporting requirement. This relationship affords the internal auditor the independence necessary to ensure that the audit work is reported to the appropriate organizational level and to help ensure that recommendations for improvement are acted upon by management.

#### **Enhancing Governance**

The audit committee is responsible for setting the governance structure to ensure the governmental unit adequately informs, directs, manages and monitors the organization's achievement of its objectives. Governance includes ensuring the organization maintains ethical values, quality and accountability. The audit committee should ensure that these governance issues are built in to policy and practice within the government unit. The external and internal auditors should report on these issues so the audit committee is apprised of the organization's compliance. At times, these governance issues can have a more serious impact than financial weaknesses because they have the ability to damage the organization's credibility and reputation. The fallout may be draconian compared to the actual weakness.

*As boards and councils of governmental entities focus on the services they provide to their citizenry and the business of running the government, establishing an audit committee in those governments can provide a much needed focus on fiscal accountability, from effective internal controls and fraud prevention to the preparation of financial statements and compliance with laws and regulations over the use of public monies.*

Randy Roberts, Director of Professional Practice-Arizona Office of the State Auditor

### Audit Committee Charter

The creation of an audit committee is a best practice that will help a governing body and its officials improve public accountability and governance. One of the first steps in establishing an audit committee should be the creation of a formal, written charter. An audit committee charter defines the authority, structure, responsibilities, and membership requirement (skills and level of fiscal experience) of the audit committee; and is an effective tool for managing an audit committee's activities. Because government organizations have their own laws and regulations to consider, the audit committee charter should be based on each government's requirements and tailored to each committee's needs. However, at a minimum the charter should state:

- The purpose of the audit committee and include details relating to its composition including number of committee members, their qualifications and the length of terms as well as how new members are appointed. It should also include the frequency of meetings, the topics to be discussed, and the nature and frequency of the committee's

communication with the organization's senior managers, as well as its internal and external auditors.

- The responsibilities, powers and authority of the audit committee independent of the organization's senior management related to the external audit function, the internal audit function, internal controls, ethics and compliance, risk management procedures, financial statements and reporting.

The audit committee should itself periodically review its charter, in order to assess its continued adequacy and completeness and make any recommendations for change to the full board or governing body of the public sector entity. In performing this review the committee should consider any new legal or regulatory changes as well as best practices. Reviews should be typically performed annually; however, frequency can vary depending on the complexity, size and type of organization. In addition, Government organizations should also consider having their audit committee members periodically conduct a self-evaluation to review and improve their effectiveness.

*Establishing an audit committee helps to reduce risk to citizens and elected officials and ensures oversight of a government entity's financial, compliance, and operations responsibilities and effect change in practices and internal control, when necessary. When the audit committee properly oversees management's actions on financial reporting, compliance, and operations, the goal of transparency is also achieved. If effectively designed, the audit committee can be a strategic partner in conducting quality audits, and improving government operations.*

Marcia Buchanan, Assistant Director, Government Auditing Standards-Government Accountability Office

### Author's Bios

Kenneth Shulman, CPA has been working in government auditing for more than 30 years. For over 2 years, he is the Director of Internal Audits for the New York State Insurance Fund (NYSIF), the largest single insurer for Workers' Compensation in New York State. In his role at the NYSIF, he reports functionally to the Budget and Audit Committee. Before working at NYSIF, he worked at the New York State Comptroller's Office managing post audits of various State agency functions.

Tina Kim, CPA is the Deputy Comptroller for Audit in the Office of Comptroller for the City of New York. Prior to that Tina was the New York State Department of Transportation's Director of the Audit and Civil Rights Division which is responsible for the Department's compliance and assurance functions. She also serves as the leader of the New York State Economic Recovery and Reinvestment Cabinet's Internal Control and Fraud Prevention Working Group and is a member of the New York State's Office of Taxpayer Accountability's Internal Audit subgroup. Prior to joining the Department she was the Deputy Inspector General for Audit with the Office of the State Inspector General. Her career also includes significant experience with the Office of the State Comptroller as well as private industry. Tina is a member of the AICPA Government Performance and Accountability Committee and IIA's public Sector Committee.

### For More Information

AICPA's Audit Committee Effectiveness Center: <http://www.aicpa.org/ForThePublic/AuditCommitteeEffectiveness/Pages/ACEC.aspx>

The AICPA Audit Committee Toolkit: Government Organizations [http://www.cpa2biz.com/AST/Main/CPA2BIZ\\_Primary/FinancialManagement/Management/AuditCommittee/PRDOVR~PC-991005/PC-991005.jsp](http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/FinancialManagement/Management/AuditCommittee/PRDOVR~PC-991005/PC-991005.jsp)

A New Vision for Public Sector Audit Committees: [http://www.gfoa.org/downloads/AuditCommitteesGFR\\_apr07.pdf](http://www.gfoa.org/downloads/AuditCommitteesGFR_apr07.pdf)

Members in Government Guide to Understanding Internal Control and Internal Control [http://www.aicpa.org/InterestAreas/BusinessIndustryAndGovernment/Resources/GovernmentResourceCenter/DownloadableDocuments/FINAL\\_Understanding\\_Internal\\_Control\\_Services\\_government.pdf](http://www.aicpa.org/InterestAreas/BusinessIndustryAndGovernment/Resources/GovernmentResourceCenter/DownloadableDocuments/FINAL_Understanding_Internal_Control_Services_government.pdf)

Sample Audit Committee Charter: <http://www.theiia.org/guidance/standards-and-guidance/audit-committees-board-of-directors/sample-audit-committee-charter-1/?search=Audit>

*AICPA National Audit Committee Forum:* This conference covers everything an audit committee oversees, such as financial reporting, the external audit plan, risk management, and more. [www.cpa2biz.com](http://www.cpa2biz.com)

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