

Audit Committee Charter Guidance

Provisions of Education Law require the trustees or board of education (board) of most school districts to establish an audit committee to oversee and report upon the annual independent audit of the district's records. Education Law also requires many school districts to establish an internal audit function and for the audit committee to assist the board in the oversight of that function. These guidelines provide a framework and offer guidance that boards of education can use for establishing an audit committee charter. A sample charter is provided at the end of this guidance. This sample charter does *not* include all activities that might be appropriate to a particular audit committee, nor will all activities identified in this sample charter be relevant to every committee. Except for those requirements mandated by Education Law §2116 (b) and (c), this sample charter should be tailored to meet each district's needs by taking into consideration the size and complexity of each district's operations.

Audit Committee Authority

This section of the charter should cite Education Law §2116-c (2), which requires every school district, except those employing fewer than eight teachers, to establish an audit committee by January 1, 2006 by resolution of the board. The role of the audit committee is to advise the board on issues relating to the district's external and internal audit functions. However, the ultimate responsibility for review and action on audit reports remains with the full board.

Mission

This section of the charter should describe the purpose or mission of the audit committee to ensure that both external and internal audit functions and other accountability issues receive adequate oversight. It should address the appropriate scope of the audit committee's activities and make clear that these activities are advisory in nature.

Composition and Requisite Skills

This section should describe the number of members on the audit committee (State law requires at least three), their terms of office and requisite skills. Members should collectively possess the expertise and experience in accounting, auditing, financial reporting and school district finances needed to understand and resolve concerns raised by independent auditors or the district's internal auditor.

To accommodate the varying needs and circumstances among school districts, membership of the audit committee may be structured in any one of the following configurations:

- As a sub-committee of the board;
- As a committee of the whole board; or
- As a committee that may include or be comprised entirely of non-board members, if the board deems that such composition is advisable to providing the requisite accounting, auditing and financial reporting expertise.

Although audit committee members are considered district office-holders under the law so that they can be covered by district policies and indemnity powers, they may be selected from outside of the district in order to ensure the appropriate level of expertise and experience. Committee members serve without compensation but are allowed reimbursement for any actual and necessary expenses incurred in relation to attendance at committee meetings. Employees of the school district are prohibited from serving on the audit committee.

Audit Committee Duties

This section should specify the duties and responsibilities to be performed by the audit committee. The committee has two primary functions to oversee: the annual external audit and the internal audit function (if required in that district). The committee's responsibilities start with the selection of the independent and internal auditors and continue on through the review of significant internal and external audit findings. This section of the charter should also outline the principal features of the external audit engagement and monitoring process.

Membership

This section should specify the ethical standards required of audit committee members, including who is not eligible to serve on the board due to potential conflict of interest.

Meetings and Notification

This section should describe the frequency of audit committee meetings and documentation requirements for meetings held. Meeting frequency will largely depend on the nature and scope of the audit committee's responsibilities.

Education Law §2116-c (7) provides that an audit committee may conduct an executive session under certain circumstances, such as meetings with the external auditor prior to

the commencement of the audit, discussions with the external auditor concerning any risk assessment of district operations and meetings with the external auditor to review and discuss the draft annual audit report and management letter. The audit committee should consult with the district's legal counsel prior to utilizing the executive session privileges enumerated in this section of Education Law.

The legislation also provides that a member of the board of education who is not a member of such audit committee may be allowed to attend an audit committee meeting if authorized by a resolution of the board of education.

Decision-Making Process

This section should describe the guidelines to be followed by the audit committee in their decision-making and voting process.

Reporting Requirements

This section should describe the board of education's reporting expectations for the audit committee.

Review of the Charter

This section should describe the expectations of the board of education for the annual review of the audit committee charter.

Audit Committee Charter Template

All italicized sample wording represents statutory requirements contained in Education Law §2116 (b) and (c). All other (non-italicized) sample wording should be tailored or modified to meet the requirements and guidance developed by the trustees or board of education of each district.

Audit Committee Authority

Pursuant to resolution number [insert number of resolution], dated [insert date of resolution], the Board of Education of the [insert name of district] has established an audit committee to assist the Board of Education in the oversight of both the internal and external audit functions. The requirement to create an audit committee was established by Education Law §2116-c. *According to §2116-c (4), the role of an audit committee shall be advisory and any recommendations it provides to the Board shall not be substituted for any required review and acceptance by the Board of Education.* The District's resolution also states that [insert any other relevant wording from the establishing resolution for each District].

Mission

The Board of Education of the [insert name of district] has established an audit committee to provide independent assistance to the Board in the oversight of the following matters:

- *Assist the Board in providing oversight of the internal and external audit functions, including the appointment of the internal and external auditors.*
- Oversee the competitive Request for Proposal Process (RFP) used to solicit quotations for the District's annual external audit.
- Review the scope, plan and coordination of the external audit.
- *Review corrective action plans and necessary improvement based on audit findings and recommendations received from external and internal auditors.*
- Provide a communications link between the external and internal auditors and the Board.

Composition and Requisite Skills

The [insert name of district] *Audit Committee is comprised of [insert number of members – must be at least three]* with staggered [insert number of years] terms. The committee shall include:

[insert composition of the audit committee as established by the Trustees or the Board of Education]

The Committee members collectively should possess the expertise and experience in accounting, auditing, financial reporting and school district finances needed to understand and evaluate the school district's financial statements, the external audit of those statements and the district's internal audit activities. Accordingly, the Audit Committee's members should:

- Possess the requisite skills and experience necessary to understand technical and complex financial reporting issues.
- Have the ability to communicate with, and offer advice and assistance to, public finance officers and auditors.
- Be knowledgeable about internal controls, financial statement audits and management/operational audits.

Duties and Responsibilities

The duties and responsibilities of the [insert name of district] Audit Committee includes the following:

- **External Audit Focus**
 - *Recommend selection of the external auditor to the Board of Education.*
 - *Meet with the external auditor prior to commencement of the audit to review the engagement letter.*
 - *Review and discuss with the external auditor any risk assessment of the district's fiscal operations developed as part of the auditor's responsibilities under governmental auditing standards for a financial statement audit and federal single audit standards, if applicable.*
 - Review the external auditor's assessment of the district's system of internal controls.
 - *Receive and review the draft annual audit report and accompanying draft management letter and, working directly with the external auditor, assist the Board of Education in interpreting such documents.*
 - *Make a recommendation to the Board of Education on accepting the annual audit report.*

- *Review any corrective action plan developed by the school district and assist the Board of Education in the implementation of such plans.*
- **Internal Audit Focus**
 - *Make recommendations to the Board of Education regarding the appointment of the internal auditor.*
 - *Assist in the oversight of the internal audit function.*
 - Review the annual internal audit plan to ensure that high risk areas and key control activities are periodically evaluated and tested.
 - *Review the results of internal audit activities and significant recommendations and findings of the internal auditor.*
 - *Monitor implementation of the internal auditor's recommendations by management.*
 - *Provide input on the performance evaluation of the internal auditor.*
- **Administrative Matters**
 - Hold regularly scheduled meetings.
 - Administer other related duties as prescribed by the Board of Education.
 - Review and revise the Audit Committee Charter.

Membership

The membership duties of the [insert name of district] Audit Committee include the following:

- **Good Faith** – Members of the Committee shall perform their duties in good faith, in a manner they reasonably believe to be in the best interests of the Committee and the District with such care as a generally prudent person in a similar position would use under similar circumstances.
- **Independence** – The following individuals would be precluded from being an Audit Committee member:
 - Someone currently or previously employed by the District during the past [insert period].
 - Someone currently or previously providing services contractually to the District during the past [insert period].
 - Someone of the immediate family (husband, wife & any children and their spouses) of an individual who is, or has been in any of the past [insert period], employed by the district, providing services contractually to the District or contractually related to the District as a board member or an administrator.

- Someone who is a partner in, a controlling owner or an executive of, any for-profit business to which the district made, or from which the district received, payments that are or have been significant [insert dollar amount] to the district or the for-profit business entity in any of the past five years.
- **Confidentiality** – During the exercise of duties and responsibilities, the Committee members may have access to confidential information. The Committee shall have an obligation to the district to maintain the confidentiality of such information.
- **Oath of Office** - All non-board members, who are members of the Audit Committee, should be administered the district’s oath of office by the District Clerk.

Meetings and Notification

The [insert name of district] Audit Committee shall meet a minimum of [insert number] times each year. An agenda of each meeting should be clearly determined in advance and the Audit Committee should receive supporting documents in advance, for reasonable review and consideration. *Any member of the Board of Education, who is not a member of the Audit Committee, may attend audit committee meetings if authorized by a resolution of the Board.*

The Audit Committee shall prepare minutes of each meeting. At a minimum, the minutes will include the following:

- Copies of the meeting agenda
- Date, attendance and location of the meeting
- Brief summary of the topics discussed
- Copies of materials discussed or presented at the meeting
- A record of all actions or recommendations agreed to by the committee

Decision-Making Process

All decisions shall be reached by consensus of those members present at the meeting. Consensus is defined as an acceptable solution that all can agree to support. If consensus cannot be reached, polling of the voting membership will take place and simple majority will rule. A quorum constitutes a simple majority of the total membership and meetings will not be conducted unless a quorum is present.

Reporting Requirements

The [insert name of district] Audit Committee has the duty and responsibility to report its activities to the Board of Education. Periodic written reports of Audit Committee activities are an important communication link between the Audit Committee and the Board on key decisions and responsibilities. The Audit Committee's reporting requirements are to:

- Report on the scope and breadth of committee activities so that the Board of Education is kept informed of its work.
- Provide minutes of meetings and work sessions which clearly record the actions and recommendations of the Committee.
- Report on their review of the District's draft annual audit report and accompanying management letter and their review of significant findings and recommendations of the internal auditor.
- Report on suspected fraud or abuse or material defects in the internal control systems.
- Report on material or significant non-compliances with laws or District policies and regulations.
- Report on any other matters that should be disclosed to the Board of Education.

Review of the Charter

The [insert name of district] Audit Committee shall assess and report to the Board of Education on the adequacy of this Charter no less than an annual basis or as necessary. Charter modifications, as recommended by the Audit Committee, should be presented to the Board of Education in writing for their review and action.