

# 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 to the board on the annual independent audit of the district's records. Education Law also requires most school districts to establish an internal audit function and for the audit committee to assist the board in the oversight of that function. Pursuant to section 170.12 of the Regulations of the Commissioner of Education, which were adopted as an emergency action and are subject to revision, the audit committee must develop and submit to the board for approval, a formal, written charter, which must include provisions regarding the committee's mission, duties, responsibilities and membership requirements.

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 2116-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, 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 assist and 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 in connection with both external and internal audit functions. 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 (Education Law §2116-c requires at least three). Members should collectively possess the knowledge 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 of the following configurations:

- As a committee of the board;
- As a committee of the whole board; or
- As an advisory committee that may include or be comprised entirely of persons other than board members, if the board deems that such composition is advisable to provide the requisite accounting, auditing and financial reporting knowledge.

Although audit committee members are considered district officers for certain limited purposes, they need not be residents of the district. This can help ensure that the committee has the appropriate level of knowledge. Committee members serve without compensation but are allowed reimbursement for any actual and necessary expenses incurred in relation to attendance at committee meetings.

### **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 assist in the oversight of the annual external audit and assist in the oversight of the internal audit function (if an internal audit function is required in that district). The committee's responsibilities start with recommendations regarding 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 Qualifications**

This section should specify the ethical standards required of audit committee members, including who is not eligible to serve on the board. Employees of the school district and certain other individuals are prohibited from serving on the audit committee.

### **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, including those pertaining to meetings with the external auditor prior to the commencement of the audit, reviewing and discussing with

the external auditor any risk assessment of district fiscal operations, receiving and reviewing the draft external audit report and accompanying management letter, and assisting the board in interpreting these documents. 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.

Section 2116-c (7) also provides that a member of the board of education who is not a member of the audit committee may be allowed to attend an audit committee meeting if authorized by a resolution of the board.

### **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 2116-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. For those districts governed by trustees, the word “trustees” should be substituted for “board of education”.*

## **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. In accordance with *Education Law §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 advice, assistance, and recommendations to the Board in the oversight of the internal and external audit functions of the district.

## **Composition and Requisite Skills**

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

[Insert composition of the audit committee as established by the Trustees or the Board of Education, whether as a committee of the board of education, a committee of the whole, or an advisory committee.]

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

- Possess the requisite knowledge necessary to understand technical and complex financial reporting issues.
- Have the ability to communicate with auditors, public finance officers and the school board.
- 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 include the following:

- **External Audit Focus**
  - *Provide recommendations regarding the selection of the external auditor to the Board of Education.*
  - *Meet with the external auditor prior to commencement of the audit to, among other things, 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.*
  - *Receive and review the draft annual audit report and accompanying draft management letter, including the external auditor's assessment of the district's system of internal controls, 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 every 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, including reviewing the annual internal audit plan to ensure that high risk areas and key control activities are periodically evaluated and tested, and reviewing the results of internal audit activities.*
  - *Review significant recommendations and findings of the internal auditor.*
  - *Monitor implementation of the internal auditor's recommendations by management.*
  - *Participate in the evaluation of the performance of the internal audit function.*
- **Administrative Matters**

- Hold regularly scheduled meetings.
- Review and revise the Audit Committee Charter, as necessary.

## **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** – An individual, other than members of the Board of Education, may not serve on an audit committee constituted as an advisory committee if he or she:
  - Is employed by the district.
  - Currently provides, or within the prior two years, has provided, goods or services to the district.
  - Is an immediate family member (spouse, spouse equivalent or dependent [whether or not related]) or close family member (parent, sibling or nondependent child) of an individual who is an employee, officer or contractor providing services to the district.
  - Is the owner of or has a direct and material interest in a company providing goods or services to the district.
- **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.

## **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 give notice and prepare minutes of each meeting. At a minimum, the minutes will include the following:

- The meeting agenda

- Date, attendance and location of the meeting
- Except as otherwise provided by law in connection with executive sessions, summaries of the topics discussed, and all motions, proposals, resolutions and any other matter formally voted upon and the vote thereon, including recommendations agreed to by the committee.
- As appropriate, copies of materials discussed or presented at the meeting.

## **Decision-Making Process**

All decisions shall be reached by vote of a simple majority of the total membership of the committee. 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 as needed, but not less than annually. 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 or a summary of minutes of meetings 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.
- Report on suspected fraud, waste or abuse, or significant internal control findings and activities of the internal control function.
- Report on indications of material or significant non-compliances with laws or District policies and regulations.
- Report on any other matters that the committee believes 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.