

ATTACHMENT D

GUIDELINES FOR AUDIT COMMITTEE CHARTERS

The specific activities of any audit committee will depend on, among other things, the mission, nature, structure, and size of each agency. In establishing the audit committee and creating its charter, each board should examine its agency's particular circumstances. Anti-fraud literature notes that there are two categories of fraud: fraudulent financial reporting and misappropriation of assets. The audit committee should consider the risks of fraud in its agency in general as well as the history of its particular agency with regard to prior audit findings, previously disclosed weaknesses in internal control, and compliance issues. The audit committee should consider both the risk of fraudulent financial reporting and the risk of fraud due to misappropriation or abuse of agency assets. Also, the board and the audit committee should keep in mind that agencies receiving public funding should have a lower threshold of materiality than private sector entities with regard to fraud risks.

Boards should exercise professional judgment in establishing the duties, responsibilities, and authority of the audit committee. The factors noted below are not intended to be an exhaustive listing of those matters to be considered. The committee should not limit its scope to reacting to a preconceived set of issues and actions but rather should be proactive in its oversight of the agency as it concentrates on the internal control and audit-related activities of the entity. In fact, this individualized approach is one of the main benefits derived from an audit committee.

At a minimum, audit committees should:

1. Develop a written charter that addresses the audit committee's purpose and mission.
2. Formally reiterate, on a regular basis, to the board, agency management, and staff their responsibilities for preventing, detecting, and reporting fraud, waste, and abuse.
3. Serve as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information they may receive or otherwise note regarding risks of fraud or weaknesses in the agency's internal controls; reviewing with the auditors any findings or other matters noted by the auditors during audit engagements; working with the agency management and staff to ensure implementation of audit recommendations; and assisting in the resolution of any problems the auditors may have with cooperation from agency management or staff.
4. Develop a formal process for assessing the risk of fraud at the agency, including documentation of the results of the assessments and assuring that internal controls are in place to adequately mitigate those risks.
5. Develop and communicate to staff of the agency their responsibilities to report allegations of fraud, waste, or abuse at the agency to the committee and the Comptroller's Office as well as a process for immediately reporting such information.
6. Immediately inform the Comptroller of the Treasury's Office when fraud is detected.

7. Develop and communicate to the board, agency management, and staff a written code of conduct reminding those individuals of the public nature of the agency and the need for all to maintain the highest level of integrity with regard to the financial operations and any related financial reporting responsibilities of the agency; to avoid preparing or issuing fraudulent or misleading financial reports or other information; to protect agency assets from fraud, waste, and abuse; to comply with all relevant laws, rules, policies and procedures; and to avoid engaging in activities which would otherwise bring dishonor to the agency.

The charter of the audit committee should include the following topics:

MISSION, PURPOSE, AND RESPONSIBILITIES

This should include:

- assisting the board in its oversight of the agency,
- review of management's risk assessments,
- review of the entity's internal control structure,
- review of the entity's process for monitoring compliance with laws and regulations, and
- review of the entity's code of conduct.

MEMBER QUALIFICATIONS

- Each member of the audit committee should have an adequate background and education to allow a reasonable understanding of the information presented in the financial reports of the agency and the comments of auditors with regard to internal control and compliance findings and other issues.
- The members of the audit committee should be independent from any appearance of other interests that are in conflict with their duties as members of the audit committee.
- The chair of the audit committee should preferably have some accounting or financial management background.

COMMITTEE STRUCTURE

- The board should nominate the audit committee and the chair of the audit committee.
- The size of the audit committee should be established. The committee should consist of a minimum of three members.

- The term of office should be defined.

MEETINGS

- The number of members required for a quorum should be stated.
- The frequency of audit committee meetings should be established. An audit committee should meet as often as is necessary to carry out its responsibilities.
- The audit committee should record minutes of its meetings.

COMPLAINTS AND ETHICS

The audit committee charter should require the audit committee to:

- ensure procedures for the receipt, retention, and treatment of complaints about accounting, internal controls, or auditing matters;
- review the code of conduct to ensure that it:
 - is easy to access,
 - is widely communicated,
 - is easy to understand and implement,
 - includes a confidential mechanism for reporting code violations,
 - is enforced, and
 - includes conflict of interest policy and guidelines; and
- review the conflict of interest policy to ensure that:
 - the term “conflict of interest” is clearly defined,
 - guidelines are comprehensive,
 - annual signoff is required, and
 - potential conflicts are adequately resolved and documented.