

AGENDA ITEM

2. Approval of Committee Charter Updates..... Joyce Boni

Situation: The Charter for the Committee on Audit, Risk Management, and Compliance is being presented for review and approval.

Background: An Audit Committee Charter was originally established and approved by the Board of Governors in February 2006. The Charter is designed to assist this Committee of the Board of Governors in fulfilling oversight responsibilities for the financial reporting process, the system of internal control, the audit process and the University's process for monitoring compliance with laws and regulations. To ensure it is current, the charter is periodically reviewed and updated.

Assessment: A review of the charter and the recent approval by the Board of Governors to update the jurisdiction in *The Code* for responsibilities of the Committee on Audit, Risk Management, and Compliance has resulted in the following recommended updates:

- Reference changes to the Committee on Audit, Risk Management, and Compliance rather than Audit Committee;
- Incorporating references to responsibilities related to enterprise risk management and compliance;
- Updated responsibilities of the Committee as required by guidance from the Institute of Internal Auditors; and
- Organizing the Committee's principal duties and responsibilities by key area.

Action: This item requires a vote by the Committee, with full Board vote through the consent agenda.



Committee Charter for the Board of Governors Committee on Audit, Risk Management, and Compliance

Last updated and approved April 2016

I. Background and Authority

- a. All constituent institutions, affiliated entities, and General Administration of the University of North Carolina are subject to audit by the North Carolina State Auditor under Article 5A of Chapter 147 of the North Carolina General Statutes (N.C.G.S.).
- b. Under the authority of N.C.G.S. § 116-30.1, the Board of Governors may designate a special responsibility constituent institution, by expressly finding that each institution to be so designated has the management staff and internal financial controls that will enable it to administer competently and responsibly all additional management authority and discretion to be delegated to it. The Board of Governors, on recommendation of the President, shall adopt rules prescribing management staffing standards and internal financial controls and safeguards.
- c. A special responsibility constituent institution of the University of North Carolina is required by N.C.G.S. § 116-30.8 to have an annual audit conducted by the North Carolina State Auditor.
- d. The University of North Carolina is required to establish a program of internal auditing pursuant to N.C.G.S. § 143-746.
- e. Chapter 600 of the UNC Policy Manual establishes financial, reporting, and audit policies, regulations, and guidelines for the University of North Carolina, University-related private foundations, and associated entities.

II. Purpose

The Committee on Audit, Risk Management, and Compliance will assist the UNC Board of Governors perform its responsibilities and oversight related to:

1. The integrity of financial statements.
2. Systems of internal control and audit process.
3. Compliance with laws and policies.
4. System-wide enterprise risk management and compliance processes.
5. Designation of special responsibility constituent institutions.
6. The required elements of University associated entities.

III. Organization

The Committee on Audit, Risk Management, and Compliance (CARMC) will be a standing committee of the UNC Board of Governors. The chairman of the Board of Governors will select the Committee members and determine the number of voting members.

1. Committee members must be independent of UNC or associated entity management and free of any relationship that would impair the member's independence.
2. Committee members may not receive consulting, advisory, or other fees from any of the constituent institutions, affiliated entities, associated entities, or UNC General Administration.
3. If practicable, at least one member of the Committee should be a financial expert. A financial expert is someone who has an understanding of generally accepted accounting principles and financial statements, preferably relative to higher education; experience in applying such principles; experience in preparing, auditing, analyzing, or evaluating financial information; experience with internal controls and procedures for financial reporting; or an understanding of the audit committee function.
4. If a financial expert is not available from the members of the Board of Governors, the committee may request the appointment of an independent financial expert in an advisory capacity, upon approval from the full Board of Governors.
5. An appointed financial expert may not receive consulting, advisory, or other fees from any of the constituent institutions, affiliated entities, associated entities, or UNC General Administration, other than fees related to the Committee appointment.
6. If feasible, the role of financial expert will be rotated on an annual basis.

IV. Meetings

The Committee shall meet no fewer than four times a year. The Committee will invite representatives of the constituent institutions, external and internal auditors, representatives of the Office of the State Auditor, legal counsel, and others to attend the meetings and provide pertinent information as required and requested. Meeting agendas and related materials will be prepared and provided in advance to members. Minutes will be prepared.

V. Duties and Responsibilities

The following shall be the principal duties and responsibilities of this Committee:

External Audit

1. Receive an annual overview from the State Auditor or a designated representative regarding the annual audits (financial and compliance) of the constituent institutions and UNC General Administration.
2. Review other significant audit-related communications from the State Auditor's Office or other external audit groups or firms.
3. Be available to meet during the year with external auditors (the State Auditor, engaged CPA firm, or audit staff) for consultation purposes or to discuss the auditor's judgment about the quality, not just the acceptability, of any accounting principles and underlying

estimates in the preparation of a financial statement and others matters required to be communicated to the Committee under generally accepted auditing standards.

4. Request, as needed, that the State Auditor rotate the Audit Manager or that the engaged CPA firm rotate the partner assigned to a constituent institution, affiliated entity, or UNC General Administration financial statement audit.
5. Provide a direct channel of communication to the full Board of Governors for the State Auditor and the results of external audits.

Internal Audit

1. Review and approve an annual summary of the internal audit plans submitted by each constituent institution and the UNC General Administration.
2. Review an annual summary of the work performed by the Audit Committee of each constituent institution's Boards of Trustees. This report will incorporate a summary of audits, reviews, investigations or special assignments completed by the internal audit department of each constituent institution and UNC General Administration, and will note material reportable conditions and the status of their resolution.
3. Serve as the Audit Committee for the UNC General Administration's internal audit function. In this capacity, the Committee will:
 - a. Review and approve the Internal Audit Charter.
 - b. Approve the annual internal audit plan and all significant changes to the plan.
 - c. Confirm that internal audit coordinates with external auditors and regulators to provide optimal audit coverage, reduce duplication of work, and use audit resources effectively.
 - d. Review internal audit reports and periodic summaries of external and internal audit activities.
 - e. Consider the scope and results of the internal audit activity and evaluate the adequacy of internal audit resources to ensure there are no budgetary or scope limitations that impede internal audit from executing its responsibilities. If necessary, review and approve proposals to outsource internal audit activities.
 - f. Review the organizational structure of the internal audit function to assure its independence.
 - g. Review and resolve any significant disagreement between management, external auditors, or internal audit over audit related matters.
 - h. Consider the adequacy and effectiveness of the institution's business, financial and information systems controls. If necessary, review with management and internal audit to recommend new or enhanced controls or procedures.
 - i. Oversee the institution's mechanisms for receiving, resolving, and retaining records of complaints regarding accounting, internal control, and operating matters. Receive briefings from internal audit regarding any internal control deficiencies, noncompliance, fraud, abuse, misuse of State property, and significant complaints.
 - j. Meet privately with the Chief Audit Officer, as deemed necessary.
 - k. Monitor the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Ensure the Chief Audit Officer complies with all reporting requirements of the NC Office of Internal Audit and UNC policies related to the internal audit function.

1. Provide a direct channel of communication to the full Board of Governors regarding relevant internal audit activities. Report and forward with recommendations to the full Board significant management initiatives resulting from internal/external audit activities.

Enterprise Risk Management and Compliance

1. Support the efforts, establishment of, and collaboration among the risk management, ethics, and compliance programs at the constituent institutions.
2. Monitor through regular reports from UNC General Administration's general counsel and senior officers the system-wide risk management and compliance processes.

Other Responsibilities

1. Monitor the internal control and audit-finding resolution requirements for special responsibility constituent institutions.
2. Review a summary of the annual financial audit reports of the University's major associated entities.
3. Review the required elements of a University associated entity relationship.
4. Participate, when necessary, in training sessions related to system-wide internal controls, enterprise risk management and compliance, and internal/external audit issues.
5. Consult with the UNC General Administration general counsel to review any legal matters that may have a significant impact on a financial statement, overall financial performance, or compliance with applicable state, local or federal laws and regulations.

The Committee may modify or supplement these duties and responsibilities as needed.

The Committee shall have the authority to engage independent counsel or other advisors as necessary to carry out its duties, in accordance with State rules and regulations. The Committee may also request supplemental reviews or other audit procedures by internal audit, the State Auditor, or other advisors when the circumstances dictate that further review is required. UNC General Administration shall provide appropriate funding, as determined by the Committee, for payment to advisors employed by the Committee.

The Committee shall annually review and assess the adequacy of the Committee Charter, with the assistance of staff at UNC General Administration. The Committee chair will confirm annually that the relevant responsibilities in this charter have been carried out.