

2. Approval of Audit Committee CharterLynne Sanders

Situation: The Audit Committee Charter is being presented for annual review and approval.

Background: The recommendations approved by the Best Financial Practices Task Force, as adopted by the Board of Governors at its November 2005 meeting, included the establishment of an Audit Committee. The Audit Committee developed a charter setting forth the responsibilities of the Committee. The Audit Committee Charter was originally approved by the Board of Governors in February 2006. One provision of the Charter is that “the Committee, with the assistance of the appropriate Vice President, should periodically review and assess the adequacy of the Audit Committee Charter.”

Assessment: The attached Audit Committee Charter for UNC General Administration has been reviewed and evaluated for accuracy. Minor revisions have been made for Audit Committee review and approval.

Action: This item requires a vote

Audit Committee Charter of the University of North Carolina Board of Governors

| Last updated and approved ~~August~~ July 201~~4~~3

I. Background and Authority

- 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 (NCGS).
- Under the authority of NCGS 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.
- A special responsibility constituent institution of the University of North Carolina, is required, by NCGS 116-30.8, to have an annual audit and allows for the audit to be conducted by either the North Carolina State Auditor or a certified public accountant.
- The University of North Carolina is required to establish a program of internal auditing pursuant to NCGS 143-746.
- Chapter 600 of the Board of Governors Policy Manual establishes financial, reporting, and audit policies, regulations, and guidelines for the University of North Carolina, University-related private foundations, and associated entities.
- The University is subject to and must comply with the North Carolina State Government Ethics Act, NCGS Chapter 138A.

II. Purpose

The Audit Committee will assist the UNC Board of Governors perform its responsibilities and oversight related to:

- The integrity of financial statements.
- Systems of internal audit and control.
- Compliance with ethics laws and policies.
- Designation of special responsibility constituent institutions.
- The required elements of University associated entities.

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III. Organization

The Audit Committee shall be a standing committee of the UNC Board of Governors, ~~with a minimum of six members~~ and shall consist of a number of voting members to be determined by the chair of the board. The Chairman of the Board of Governors will select members of the Committee.

- Committee members must be independent of UNC or associated entity management and free of any relationship that would impair the member's independence.
- Committee members may not receive consulting, advisory, or other fees from any of the constituent institutions, affiliated entities, associated entities, or UNC General Administration.
- 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.
- 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.
- 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 Audit Committee appointment.
- If feasible, the role of financial expert will be rotated on an annual basis.

IV. Meetings

The Audit 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 to provide pertinent information as required and requested.

V. Duties and Responsibilities

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

- Monitor the internal control, management staffing, and audit-finding resolution requirements for special responsibility constituent institutions.

- Review the annual financial audits of the constituent institutions and UNC General Administration and other significant audit-related communications from the State Auditor's Office or other external audit groups or firms.
- Request an annual overview from the State Auditor or a designated representative.
- Review and approve an annual summary of the internal audit plans submitted by each constituent institution and UNC General Administration Director of Internal Audit.
- Review an annual summary of the work performed by the Audit Committee of each constituent institution's Boards of Trustees. This summary should incorporate a summary report of the audits, reviews, investigations or special assignments completed by the internal audit department of each constituent institution and UNC General Administration. This report should also contain identified material reportable conditions and the status of their resolution.
- Be available to meet during the year with the State Auditor or his staff, or an engaged CPA firm or its staff, for consultation purposes or to discuss the Auditor's or firm's judgments about the quality, not just the acceptability, of any accounting principles and underlying estimates in the preparation of a financial statement.
- Serve as the Audit Committee for the UNC General Administration Internal Auditor. In this capacity, the Committee will:
 - Review and approve the Internal Audit Charter, audit schedules, and goals. Confirm that the Internal Auditor coordinates with the State Auditor's Office or certified public accountant to ensure complete audit coverage, reduce duplication of work and use audit resources effectively.
 - Review internal audit reports and ~~quarterly~~periodic summaries of external and internal audit activities.
 - Review and resolve any significant disagreement between management and the State Auditor's Office, a certified public accountant, or the Internal Auditor in connection with the preparation of the financial statements or with other audits.
 - Review with management and the Internal Auditor, the adequacy and effectiveness of the institution's business, financial and information systems controls, and recommend new or enhanced controls or procedures.
 - Oversee the institution's mechanisms for receiving, resolving, and retaining records of complaints regarding accounting, internal control, and auditing matters. Receive briefings from management of Internal Auditor regarding any significant complaints or misuse of State property.
 - Report and forward with recommendations to the full Board significant management initiatives involving financial reporting matters.
 - Provide a direct channel of communication to the full Board of Governors for the Internal Auditor and the State Auditor
 - Meet privately with the Internal Auditor, as deemed necessary.
- Review an annual report on University of North Carolina ~~affiliated~~associated entities.

- Review the required elements of a University associated entity relationship.
- Participate, when necessary, in training sessions related to system-wide internal controls and internal/external audit issues.
- 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.
- 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 the Internal Auditor, 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 Audit Committee Charter, with the assistance of staff at UNC General Administration.