

**COUNTY OF MONTEREY
BOARD OF SUPERVISORS
AUDIT COMMITTEE CHARTER**



[Month] 2018

COUNTY OF MONTEREY BOARD OF SUPERVISORS AUDIT COMMITTEE CHARTER

Audit Committee Establishment

Background

The Audit Committee (the “Committee”) was approved and established by Monterey County’s Board of Supervisors (the “Board”) on [\[Insert date\]](#). At that time, the Audit Committee Charter, which governs the work of the Committee was established. The Audit Committee Charter, was reviewed and updated on [\[Insert date\]](#).

Mandate

The mandate for the establishment of the Committee was derived from [\[Insert text; See section A of Supplemental Guidance\]](#)

Purpose

The purpose of the Committee is to provide structured, systematic, oversight and advice of the County’s governance, risk management, and internal control practices. The Committee assists the Board in fulfilling its oversight responsibilities in relation to the County’s initiatives for:

- Values and ethics
- Governance structure
- Risk management
- Internal control framework
- Internal audit activity
- External auditors, and other assurance providers
- Financial statements
- Public accountability reporting

The Committee monitors each of the activities listed above and provides the Board with independent advice and guidance regarding the adequacy and effectiveness of management's practices and potential improvements to those practices.

Authority

In discharging its responsibilities, the Committee will have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties. The Committee also will have unrestricted access to records, data, and reports. If access to requested documents is denied due to legal or confidentiality reasons, the Committee will follow a prescribed, Board approved mechanism for resolution of the matter.

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The Committee is empowered to:

- Appoint, compensate, and oversee all audit and non-audit services performed by external auditors, including the work of any registered public accounting firm employed by the County.
- Resolve any disagreements between management and external auditors regarding financial reporting and other matters.
- Pre-approve all operational and performance audit and non-audit services performed by internal auditors.
- Engage independent counsel and/or other advisors deemed necessary to carry out its duties.
- Receive explanatory information and/or documentation from County management and staff, who are required to cooperate with Committee inquiries and requests.

Committee Members

The Committee will consist of [\[Insert names/structure of Committee. See section B of Supplemental Guidance\]](#) Committee members are obliged to prepare for and participate in committee meetings.

Committee Chairperson

The Board will designate the Chair of the audit committee and appointment committee members.

Terms of Office

The term of office for a Committee member is [\[Insert number or years; See section C of Supplemental Guidance\]](#) years. To ensure continuity within the Committee, the appointment of members will be staggered. To ensure the effective discharge of duties in response to emerging needs, membership will be reviewed annually.

Quorum

The quorum for the Committee will be a majority of the members. Each Committee member shall have one vote. Members must be present at the time of the vote.

Audit Committee Principles

Committee Values

Committee members shall perform their duties in good faith, in a manner reasonably believed to be in the best interest of the Committee and the County, and with such care as an ordinary prudent person in a similar position would use under similar circumstances. [\[Insert reference; See section D of Supplemental Guidance\]](#). The audit committee expects that management and staff of the organization will adhere to these requirements.

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Communications

The Committee is responsible for maintaining free and open communication between itself, the external auditor, the internal auditors and management of the County, and for determining that all parties are aware of their responsibilities.

Work Plan

The Committee Chair will collaborate with senior management and the Internal Audit Division (IAD) to establish a work plan that ensures the responsibilities of the Committee are scheduled and will be carried out.

Meeting Agenda

The Committee Chair will establish agendas for Committee meetings in consultation with Committee members, senior management and the IAD.

Information Requirements

The Committee will establish and communicate its requirements for information, which will include the nature, extent, and timing of information. Requested information will be provided to the Committee at least one week prior to each Committee meeting.

Executive sessions

The Committee will schedule and hold if necessary, a private session with the Auditor-Controller and Chief Deputy IAD, external assurance providers, and with any other officials that the Committee may deem appropriate.

Conflict(s) of interest

Committee members should adhere to the organizations code of conduct and any values and ethics established by the organization. It is the responsibility of Committee members to disclose any conflict of interest or appearance of a conflict of interest to the Board. If there is any question as to whether Committee member(s) should recuse themselves from a vote, the Committee should vote to determine whether the member should recuse himself or herself.

Orientation and Training

Committee members will receive formal orientation training on the purpose and mandate of the Committee and on the County's objectives. A process of continuing education will also be established.

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Audit Committee Procedures

Meetings

The Committee will meet at least [Insert number; See section E of Supplemental Guidance] times annually or more frequently as the Committee deems necessary. The time frame between meetings should not exceed four months.

Minutes

Minutes will be prepared in accordance with applicable law, regulation, bylaw, policy, procedure, and/or other applicable requirements. Meeting minutes will be provided in draft format at least two weeks after the audit committee meeting.

Required attendance

The Chief Deputy, IAD, Auditor-Controller and Assistant Chief Administration Officer – Budget and Analysis are required to attend all Committee meetings.

Secretariat Services

The [insert name and title] will facilitate and coordinate meetings as well as provide ancillary support to the Committee, as time and resources permit.

Remuneration of Committee Members

Committee members who are employed by the County will not receive any additional remuneration outside of their established compensation paid by the County. For Committee members not employed by the County, payment rates and allowances for time and/or services are established formally in [Insert text; See section F of Supplemental Guidance].

All Committee members may be reimbursed for travel and Committee related expenses. Reimbursable expenses must be properly evidenced and compliant with the County's Travel and Expense Policy.

Professional indemnity insurance: [Insert text; See section F of Supplemental].

Responsibilities

It is the responsibility of the Committee to provide the Board with independent, objective advice on the adequacy of management's arrangements with respect to the following aspects of the management of the organization:

Values and Ethics

To obtain reasonable assurance with respect to the County's values and ethics practices, the Committee will:

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- Review and assess the policies, procedures, and practices established by the governing body to monitor conformance with its code of conduct and ethical policies by all managers and staff of the organization.
- Provide oversight of the mechanisms established by management that help maintain high ethical standards for all the managers and staff of the organization.
- Review and provide advice on the systems and practices established by management to monitor compliance with laws, regulations, policies, and standards of ethical conduct and identify and deal with any legal or ethical violations.

Organizational Governance

To obtain reasonable assurance with respect to the County's governance process, the Committee will review and provide advice on the governance process established and maintained within the organization and the procedures in place to ensure that they are operating as intended.

Risk Management

To obtain reasonable assurance with respect to the County's risk management practices, the Committee will:

- Annually review the County's policies on risk assessment, risk management and fraud risk.
- Obtain from the Chief Deputy, IAD an annual report on management's implementation and maintenance of an appropriate enterprise wide risk management process.
- Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.
- Review and provide advice on the risk management process established and maintained by management and the procedures in place to ensure that they are operating as intended.

Fraud

To obtain reasonable assurance with respect to the County's procedures for the prevention and detection of fraud, the Committee will:

- Oversee management's arrangements for the prevention and deterrence of fraud.
- Ensure that appropriate action is taken against known perpetrators of fraud.
- Challenge management and internal and external auditors to ensure that the entity has appropriate anti-fraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.

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Control

To obtain reasonable assurance with respect to the adequacy and effectiveness of the County's controls in responding to risks within the organization's governance, operations and information systems, the Committee will:

- Consider the effectiveness of the County's control framework, including information technology security and control.
- Review and provide advice on the control of the County and its individual units.
- Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to senior management and the Board.

Compliance

The Committee will:

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the observations and conclusions of internal and external auditors and the findings of any regulatory agencies.
- Review the process for communicating the code of conduct to the County's personnel and for monitoring compliance.
- Obtain regular updates from management regarding compliance matters.

Internal Audit and other assurance provider oversight

Internal Audit

To obtain reasonable assurance with respect to work of the Internal Audit activity, the Committee will provide oversight related to:

1. Internal audit charter and resources:

- Review and approve the internal audit charter at least annually. The charter should be reviewed to ensure that it accurately reflects the internal audit activity's purpose, authority, and responsibility, consistent with the mandatory guidance of the The IIA's International Professional Practices Framework and the scope and nature of assurance and consulting services, as well as changes in the financial, risk management, and governance processes of the organization and reflects developments in the professional practice of internal auditing.
- Advise the Board about increases and decreases to the requested resources to achieve the internal audit plan. Evaluate whether any additional resources are needed permanently or should be provided through outsourcing.

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2. Chief Deputy, IAD performance:

- Advise the Board regarding the qualifications and recruitment, appointment, and removal of the Chief Deputy, IAD.
- Provide input to management related to evaluating the performance of the Chief Deputy, IAD.
- Recommend to management or the Board the appropriate compensation of the Chief Deputy, IAD.

3. Internal Audit Strategy and Plan:

- Review and provide input on the internal audit activity's strategic plan, objectives, performance measures and outcomes.
- Review and approve proposed risk based internal audit plan and make recommendations concerning internal audit projects.
- Review internal audit resources necessary to achieve the plan.
- Review the internal audit activity's performance relative to its audit plan.

4. Internal Audit Engagement and Follow-up:

- Review internal audit reports and other communications to management.
- Review and track management's action plans to address the results of internal audit engagements.
- Review and advise management on the results of any special investigations.
- Inquire of the Chief Deputy, IAD whether any internal audit engagements or non-audit engagements have been completed but not reported to the Committee; if so, inquire whether any matters of significance arose from such work.
- Inquire of the Chief Deputy, IAD whether any evidence of fraud has been identified during internal audit engagements and evaluate what additional actions, if any, should be taken.

5. Standards Conformance:

- Inquire of the Chief Deputy, IAD about steps taken to ensure that the internal audit activity conforms with The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- Ensure that the internal audit activity has a quality assurance and improvement program and that the results of these periodic assessments are presented to the Committee.
- Ensure that the internal audit activity has an external quality assurance review every five years.

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- Review the results of the independent and external quality assurance review and monitor the implementation of the internal audit activity's action plans to address any recommendations.
- Advise the Board about any recommendations for the continuous improvement of the internal audit activity.

External Auditors

To obtain reasonable assurance with respect to work of the external assurance providers, the Committee will meet with the external assurance providers during the planning phase of the engagement, the presentation of the audited financial statements, and the discussion of the results of engagements and recommendations for management.

The Committee will:

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with the internal audit activity, where applicable.
- Review the performance of the external auditors, and exercise final approval on the appointment or discharge of auditors.
- Obtain statements from the external auditors about their relationships with the County, including non-audit services performed in the past, and discuss the information with the external auditors to review and confirm their independence.
- Have regularly scheduled exclusive meetings with external auditors to discuss any sensitive matters.
- Monitor management's progress on action plans.

To obtain reasonable assurance that management has acted on the results and recommendations of internal and external audit engagements, the Committee will regularly review reports on the progress of implementing approved management action plans and audit recommendations resulting from completed audit engagements.

Financial Statements and Public Accountability Reporting

The Committee is responsible overseeing the independent audit of the County's financial statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance, and ethics.

The Committee will:

- Review with management and the external auditors the results of audit engagements, including any difficulties encountered.
- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.

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- Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- Review other sections of the annual report and related regulatory filings and consider the accuracy and completeness of the information before it is released.
- Review with management and the external auditors all matters required to be communicated to the Committee under Generally Accepted Auditing Standards.
- Understand strategies, assumptions and estimates that management has made in preparing financial statements, budgets, and investment plans.
- Understand how management develops interim financial information and the nature and extent of internal and external auditor involvement in the process.
- Review interim financial reports with management and the external auditors before filing with regulators, and consider whether they are complete and consistent with the information known to committee members.

Other responsibilities

In addition, the Committee will:

- Perform other activities related to this charter as requested by the Board.
- Institute and oversee special investigations as needed.
- Regularly evaluate its performance and that of its individual members.

Reporting on Audit Committee Performance

The Committee will report to the board annually, summarizing the Committee's activities and recommendations. The report may be delivered during a Committee meeting attended by the Board or during a regularly scheduled meeting of the Board.

The report should also include:

- A summary of the work the Committee performed to fully discharge its responsibilities during the preceding year.
- A summary of management's progress in addressing the results of internal and external audit engagement reports.
- An overall assessment of management's risk, control, and compliance processes, including details of any significant emerging risks or legislative changes impacting the governing organization.
- Details of meetings including the number of meetings held during the relevant period and the number of meetings each member attended.
- Provide information required, if any, by new or emerging governance developments.

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- The Committee may report to the Board at any time regarding any other matter it deems of sufficient importance.

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Approval/Signatures:

Chief Administrative Officer: _____ Date: _____

Auditor Controller: _____ Date: _____

Audit Committee Chair: _____ Date: _____

Chairman of the Board: _____ Date: _____

Content reviewed: [Date]