

## PURPOSE OF THE AUDIT SUBCOMMITTEE

To assist the Board of Governors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls, the audit process, and the University's process for monitoring compliance with laws and regulations and its Code of Ethics.

## AUTHORITY AND COMPOSITION

Section 3.3.1 of the bylaws of the Board of Governors provides:

*“The Audit Subcommittee shall be a standing subcommittee of the Executive Committee and shall consist of no more than three members of the Board of Governors. The Audit Subcommittee shall provide advice, information, and recommendations to the Executive Committee so as to provide additional assurance that the Board of Governors and the Executive Committee fulfill their legal, fiduciary and financial responsibilities. The Audit Subcommittee shall review annually the account activity of the President’s Office and the annual audit and financial statements of the University and shall report to the Board through the Executive Committee”.*

The Board or the Executive Committee will appoint subcommittee members and the subcommittee chair. Members of the Audit Subcommittee must be independent of management and the University and be free of any financial or personal relationships that would impair such independence. The chair shall obtain, at a minimum, a basic knowledge of certain University financial topics such as audit subcommittee functions, accounting principles, accruals, reserves, and internal controls.

## TERM

The subcommittee members shall serve a 3-year term subject to their availability based on their elected terms.

## MEETINGS

The subcommittee will meet three to four times per year, as required, to discharge its responsibilities. The subcommittee may convene additional meetings as circumstances require. All subcommittee members are expected to attend each meeting, in person or via teleconference. Members of management, the auditors or others, as deemed necessary, will attend the meetings to provide information. The Subcommittee may hold private meetings with the auditors (see below) and may meet in executive session. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Draft minutes will be prepared and signed by the Secretary to the Board of Governors and the Audit Subcommittee chairperson. The draft minutes will be promptly circulated to the subcommittee members at the next meeting and all members of the Executive Committee. Should the chair determine that there are exceptional circumstances, he or she may provide the Executive Committee with an oral report of the Audit Subcommittee's activities on a particular subject, in lieu of including that report in the written minutes.

## RESPONSIBILITIES

The subcommittee shall discharge the following responsibilities:

### Financial Statements

- Review and approve audited financial statements and reports, before their release, and any related regulatory reporting.
- Review with management, and the external auditors the results of each audit, including any difficulties or disputes encountered.
- Review all related party transactions and their financial statement disclosures.
- Review with management and the external auditors all matters required to be communicated to the subcommittee under *Generally Accepted Auditing Standards*.
- At least annually, review with the University's general counsel any legal matters that could have a significant impact on the financial statements.

### Internal Audit

- Review with management and the Associate Vice President & Chief Audit Executive (CAE), the charter, annual internal audit plan, activities, staffing, budget, and organizational structure of the Internal Audit function.
- Have final authority to review and approve the annual audit plan and all major changes to the plan.
- Review Internal Audit reports and discuss any control concerns with the CAE and management
- Ensure there are no unjustified restrictions or limitations on the internal auditors and their work
- Review the appointment, replacement, or dismissal of the CAE.
- At least once per year, review the performance of the CAE and concur with the annual compensation and salary adjustment.
- Review and monitor management's responsiveness to Internal Audit's findings and recommendations.
- On a regular basis, meet separately with the CAE to discuss any matters that the subcommittee or Internal Audit staff believe should be discussed privately.

### External Audit

- The external auditors shall report directly to the Audit Subcommittee, which shall appoint, compensate, and provide oversight of the external auditors' work.
- Review and approve the audit engagement letter and any management letter.
- Oversee the resolution of any disagreements between management and the external auditors.
- Review and pre-approve both audit and non-audit services to be provided by the external auditors.
- Review the external auditors' proposed audit scope and approach, including coordination of the audit effort with Internal Audit.

- Annually review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors in accordance with Board Statute §2.70.02, “*Independent Auditors: Appointments*”
- Ensure the rotation of the lead partner on the engagement at least every seven years.
- On a regular basis, meet separately with the external auditors to discuss any matters that the subcommittee or auditors believe should be discussed outside the presence of management.

### Compliance

- Review the process for communicating the Code of Ethics to University personnel and for management’s monitoring of compliance.
- Review the receipt, retention, and treatment of complaints regarding accounting, internal controls, and/or auditing matters.
- Receive briefings on alleged fraud and other complaints reported to the Office of Internal Audit. The briefing shall include the number and disposition of all such matters.

### Reporting Responsibilities

- Regularly report to the Executive Committee about subcommittee activities, issues, and related recommendations.

### Other Responsibilities

- Periodically review and assess the adequacy of the subcommittee charter, requesting Executive Committee approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.