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Audit Committee Charter
Office of Internal Auditing

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PURPOSE

The State of Ohio House Bill Number 166 authorizes the establishment of a State Audit Committee ("Committee"). The Committee exists to assist the Governor and Director of the Office of Budget and Management ("OBM") in fulfilling their oversight responsibilities in the areas of financial reporting, internal controls and risk assessment, audit processes, and compliance with laws, rules, and regulations.

AUTHORITY

The Committee's authority comes from the legislature. The Committee shall be authorized for:

- (1) Ensuring that internal audits conducted by the office of internal auditing ("OIA") conform to the institute of internal auditors' international standards for the professional practice of internal auditing and to the institute of internal auditors' code of ethics;
- (2) Reviewing and commenting on the process used by OBM to prepare its annual budgetary financial report and the state's comprehensive annual financial report required under division (A)(9) of section 126.21 of the Revised Code;
- (3) Reviewing and commenting on unaudited financial statements submitted to the auditor of state and communicate with external auditors as required by government auditing standards;
- (4) Performing additional functions imposed upon it by section 126.47 of the Revised Code.

COMPOSITION

The Committee will consist of the following five members: one public member appointed by the governor; two public members appointed by the speaker of the house of representatives, one of which may be a person who is recommended by the minority leader of the house of representatives; and two public members appointed by the president of the senate, one of which may be a person who is recommended by the minority leader of the senate. Not more than two of the four members appointed by the speaker of the house of representatives and the president of the senate shall belong to or be affiliated with the same political party. The member appointed by the governor shall be a person who is external to the management structure associated with the preparation of financial statements of state government and shall have the program and management expertise required to perform the duties of the Committee's chairperson. Each member of the Committee shall serve a three-year term, except for the initial members. With respect to the initial appointments of the members, the first member appointed by the speaker of the house of representatives shall serve a one-year term, the second member appointed by the speaker of the house of representatives shall serve a three-year term, the initial members appointed by the president of the senate shall serve two-year terms, and the initial member appointed by the governor shall serve a three-year term. Members may be reappointed to serve one additional term. The Committee shall include one member who is a financial expert; one member who is an active, inactive, or retired certified public accountant; one member who is familiar with governmental financial accounting; and one member who is a representative of the public. Any vacancy on the Committee shall be filled in the same manner as provided in this division, and, when applicable, the person appointed to fill a vacancy shall serve the remainder of the predecessor's term. Members of the Committee shall receive reimbursement for actual and necessary expenses incurred in the discharge of their duties. The member of the Committee appointed by the governor shall serve as the Committee's chairperson. Members of the Committee shall be subject to the disclosure statement requirements of section 102.02 of the Revised Code.

As used in this section, "financial expert" means a person who has all of the following:

- (1) An understanding of generally accepted accounting principles and financial statements;
- (2) The ability to assess the general application of those principles in connection with accounting for estimates, accruals, and reserves;
- (3) Experience preparing, auditing, analyzing, or evaluating financial statements presenting accounting issues that generally are of comparable breadth and level of complexity to those likely to be presented by a state agency's financial statements, or experience actively supervising one or more persons engaged in those activities;
- (4) An

understanding of internal controls and procedures for financial reporting; and (5) An understanding of audit committee functions.

MEETINGS AND COMMUNICATIONS

The Committee shall meet at least four times annually, or more frequent as deemed necessary by any Committee chair. All Committee members are expected to attend each meeting in person. The Committee may not conduct any meeting with fewer than three members present. The Committee may ask members of agency management or others to attend meetings and provide pertinent information as necessary. The Chief Internal Auditor ("CIA"), in conjunction with the Committee chair, will determine that meeting agendas are prepared and provided in advance to members, along with appropriate briefing materials. Meetings will be arranged in accordance and conducted with the Ohio's open meeting laws.

Evidence of the discussions and the actions taken by the Committee should be reflected in recorded minutes of the meetings. Minutes of all Committee meetings will be prepared and approved. Subject to open meeting laws, the Committee will hold executive sessions with the independent auditors.

RESPONSIBILITIES

1. Financial Reporting

Review, in consultation with the auditor of state and the CIA, the integrity of the state agencies budgeting and financial reporting processes.

Review Ohio's annual financial statements and any reports or financial information submitted to any governmental body, or the public, including any certification, report, opinion, or review rendered by OIA or auditor of state.

Inquire as to the auditor of state qualitative judgment about the appropriateness, not just the acceptability, of the accounting principles and clarity of financial disclosures practices used or proposed to be adopted.

Inquire as to the auditor of state views about whether management's choices of accounting principles are conservative, moderate or aggressive from the perspective of income, asset and liability recognition.

Review with management and the auditor of state the effect of any regulatory and accounting initiatives, such as related organizations financing structures, derivatives, or securities lending.

Review legal and regulatory matters that, in the opinion of management, may have a material impact on the financial statements and compliance with federal, state, and local laws and regulations.

2. Risk Assessment and Internal Control

Inquire of management, the CIA, and the auditor of state about significant risks or exposures facing the state agencies; assess the steps management has taken or proposes to take to minimize such risks; and periodically review compliance with such steps.

Review with the auditor of state and the CIA:

1. The adequacy of the State of Ohio's internal controls including computerized information system controls and security
2. Any related significant findings and recommendations of the auditor of state and OIA together with management's responses thereto.

3. Internal Audit

Annually, review and comment on the OIA Charter, Policies & Procedures, audit plans, budget, activities, staffing, and organizational structure of the OIA. Confirm and assure the independence and objectivity of the OIA.

Annually, review and comment on the annual work plan, risk assessment process and results as prepared by the CIA. Determine that the plan was based, at a minimum, on the following factors:

1. The risk for fraud, waste, or abuse of public money within an agency or division;
2. The length of time since an agency or division was last subject to an internal audit;
3. The size of an agency or division, and the amount of time and resources necessary to audit it;

Receive from the CIA, prior to each meeting, each final internal audit report and a progress report on the approved annual work plan, with explanations from any deviations from the original plan.

Review any difficulties the internal audit team encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.

Monitor the status of management action plans for significant recommendations.

Ensure all internal auditing is conducted only by employees of the OIA.

Review every fifth year quality assurance reviews required by the OIA Charter, Policies & Procedures.

Review the internal audit department's compliance with applicable standards (for example, the Institute of Internal Auditors' (IIA's) Standards for the International Professional Practice of Internal Auditing).

Provide input to the OBM Director for the annual evaluation of the CIA.

Review and comment on the appointment, replacement, reassignment, or dismissal of the CIA.

4. External Audit

Meet, as needed, with representatives of the auditor of state or other external auditors regarding the proposed scope and approach of their auditing functions and subsequently the results of their audits of state agencies.

Review with the OBM Director the results of all audits, including any difficulties encountered by the auditors or disputes with management during the course of their audit. The auditor of state will be consulted, as needed.

Review with the auditor of state, the OBM director, and the CIA, the audit scope and plan of the internal auditors and the auditor of state. Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.

Review with the auditor of state that performs the financial statement audit:

- All critical accounting policies and practices used
- All alternative treatments of financial information within generally accepted accounting principles that have been discussed with OBM, the ramifications of each alternative, and the treatment preferred by OBM.

Review all significant written communications between the auditor of state and OBM, such as any management letter or schedule of unadjusted differences.

Review with OBM and the auditor of state:

- The annual financial statements, related footnotes, and management's discussion and analysis
- The auditor of state audit of the financial statements and their report thereon
- The auditor of state judgment about the quality, not just the acceptability, of the states accounting principles as applied in its financial reporting
- The auditor of state single audit of the federal awards administered by state agencies and their reports thereon
- Any significant changes in the audit plan
- Any serious difficulties or disputes with management encountered during the audit
- Matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, Communication With Audit Committees (AICPA, Professional Standards, vol. 1, AU sec. 380), as amended; U.S. Government Accountability Office's Government Auditing Standards; and the U.S. Office of Management and Budget's Circular A-133 related to the conduct of the audits

5. Reporting Responsibilities

Review all preliminary reports of OIA's findings and recommendations and the ensuing final reports. Determine an appropriate method for making the preliminary and final reports available for public inspection in a timely manner.

Review any suspected fraud or other illegal activity discovered by the OIA during the conduct of an internal audit.

Review and comment on the CIA's annual report which is submitted to the governor, the president of the senate, the speaker of the House of Representatives, and the auditor of state. Ensure that OBM makes available the report to the public by posting it on the office's web site before the first of July of each year.

Report, as the Committee may deem appropriate, to the Governor and OBM Director about Committee activities, issues, and related recommendations.

Provide an open avenue of communication between internal audit, the external auditors, and the Committee.

6. Other Responsibilities

Review the Committee's charter annually, reassess the adequacy of this charter, and recommend any proposed changes to the OBM Director and the Legislature. Consider changes that are necessary as a result of new laws, regulations, or accounting and auditing standards, including *Government Auditing Standards* (Yellow Book) issued by the Comptroller General of the United States.

Annually assess performance of the responsibilities delineated in this charter.

Approved this:

Director of Office of Budget and Management

Chair of the Audit Committee

Chief Internal Auditor