



# **Model Audit Committee Charter**

Revised February 2013

Endorsed by:  
Association of Public Pension Fund Auditors, Inc.  
A Project of the Best Practices Committee

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## FOREWORD

The following Model Audit Committee Charter (Model AC Charter) captures many of the best practices used at the present time, February 2013. This Model AC Charter may not encompass all activities considered appropriate to a particular audit committee, nor are all activities identified in this Model AC Charter relevant to every audit committee. Accordingly, this Model AC Charter should be tailored to each audit committee's needs and governing rules. Moreover, as applicable laws, rules, and customs change, the audit committee charter should be updated.

Endorsement by the Association of Public Pension Fund Auditors, Inc. (APPFA) means that this document is intended as a starting point of reference and as a guide to public pension funds in formulating or revising their audit committee charters. To the extent that a public pension fund has unique circumstances, different applications and modifications of the example passages may be desirable.

The first version of this publication was completed in July 2003 and was updated in February 2013. The update was completed by the following members of the Best Practices Committee.

Florida Rivera-Alsing, Chair	State Board of Administration of Florida
Ryan Babin	Louisiana State Employees Retirement System
Janet Harris	Public School Retirement System of Missouri
Amen Tam	Ontario Municipal Employees Retirement System
Toni Voglino	Maryland State Retirement and Pension System

The February 2013 version of this publication was approved by the APPFA Board in May 2013.

## I. PURPOSE

The purpose of the Audit Committee (Committee) is to assist the Board of Trustees (the Board) in fulfilling its fiduciary oversight responsibilities in the areas of:

- Financial Reporting,
- Risk Management,
- Internal Control,
- Internal Audit,
- Engagement of External Auditors,
- Compliance, and
- Special Investigations and Whistleblower Mechanism

## II. AUTHORITY

The Committee has the authority to direct the Chief Audit Executive (CAE), external auditors, or consultants to conduct an audit, review, and/or investigation into any matters within the Committee's scope of responsibility. It is empowered to:

- Seek any information it requires from employees – all of whom are directed by the Board to cooperate with the Committee's requests – external auditors, consultants, and external parties.
- Appoint, compensate, and oversee the work of all public accounting firms employed by the organization.
- Resolve any disagreements between management and the external auditors regarding financial reporting.
- Retain independent counsel, accountants, or others to advise or assist the Committee in the performance of its responsibilities.
- Approve the consultants, or others retained by the organization to assist in the conduct of an audit, review, and/or a special investigation.
- Meet with management, external and internal auditors, or outside counsel as necessary.

### III. COMPOSITION

The Committee will consist of at least three, and no more than seven, members of the Board. The Board, or its nominating committee, will appoint Committee members and the Committee chair. Members of the Committee shall serve until the next such appointment of the Board or until their successors have been duly elected and qualified. The members of the Committee may be removed, with or without cause, by a majority vote of the Board.

Each Committee member will be independent and will complete an annual independence statement. Each Committee member will have professional experience and expertise in at least one of the following fields: institutional investing, risk management, accounting, auditing, or information technology. All members of the Committee shall have a working familiarity with basic finance and accounting practices. At least one member of the Committee shall be designated as the "financial expert," as defined by applicable legislation and regulation. Committee members shall have other qualifications as the Board determines appropriate.

## IV. MEETINGS

The Committee shall meet at least four times a year, with authority to convene additional meetings, as circumstances require. All Committee members are expected to attend each meeting, in person or via tele- or video-conference. Meetings will be conducted in accordance with open meeting and other applicable laws. Meeting agendas, along with appropriate briefing materials, will be prepared and provided in advance to Committee members and other required attendees. Minutes of the meeting will be prepared and approved by the Committee.

Meeting notices, agendas, and materials will be provided to interested parties in conformance with applicable laws, regulations, customs, and practices. The Committee may invite members of management, external auditors, internal auditors, or other third parties, to attend meetings and provide pertinent information, as the Committee deems appropriate to carry out its responsibilities. All members of the Board may attend the meetings of the Committee but may not vote if not a member of the Committee.

To foster open communication, the Committee shall, at least annually, meet separately with the CAE and the external auditors to discuss any matters that the Committee believes should be discussed privately.*{Note: Subject to open meeting laws.}* In addition, the Committee should annually meet with the external auditors to review the organization's financial statements.

## V. RESPONSIBILITIES

The Committee will carry out the following responsibilities:

### A. *Financial Reporting*

- Obtain information and/or training to enhance the Committee’s understanding of the organization’s financial reports and the related financial reporting processes.
- Review significant accounting and reporting issues, including complex or unusual transactions, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, significant adjustments or revisions to the financial statements, including any difficulties encountered.
- Inquire as to the external auditors’ independent judgment about the appropriateness, not just the acceptability, of the accounting principles adopted by the organization and clarity of financial disclosures.
- Review the annual financial statements and any financial reports submitted to any governmental body; consider whether they are complete, consistent with information known to the Committee, and reflect appropriate accounting principles.
- Review the responsiveness and timeliness of management’s actions to address findings and recommendations that resulted from the financial statement audit.
- Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
- Review with the General Counsel the status of legal matters that may have an effect on the financial statements.
- Review, in consultation with the external auditors and the CAE, the integrity of the organization’s financial reporting processes.

### B. *Risk Management*

- Obtain information and/or training to enhance the Committee’s understanding of the organization’s risks and the related risk management processes.
- Review the adequacy of the organization’s policy on risk management.
- Review the effectiveness of the organization’s system for assessing, monitoring, and controlling significant risks or exposures.

- Review management's reports on risks and related risks mitigations.
- Hire outside experts and consultants in risk management as necessary.

### ***C. Internal Control***

- Obtain information and/or training to enhance the Committee's understanding of the organization's internal control system.
- Consider the effectiveness of the organization's internal control system, including information technology security and control.
- Understand the scope of the external auditors' review of the organization's internal control over financial reporting.
- Review internal and external auditors' significant findings and recommendations, together with management's responses.
- Ensure that contracts with external service providers contain appropriate record-keeping and audit language.

### ***D. Internal Audit***

- Obtain information and/or training to enhance the Committee's understanding of the internal audit function.
- Review and approve the Internal Audit Department Charter annually.
- Review and confirm, through organizational structure and/or by other means, the independence of the internal audit function annually.
- Concur in the appointment, replacement, or dismissal of the CAE.
- Review the performance of the CAE and the internal audit function periodically and concur with the annual compensation and salary adjustment of the CAE.
- Ensure that internal auditors have full, free, and unrestricted access to all functions, documents, information, systems, contractors, consultants, and personnel in the organization.
- Review and approve the internal audit function's staffing plan and budget.
- Review and approve the risk-based internal audit annual plan.
- Receive and review all internal audit reports.

- Review the responsiveness and timeliness of management’s follow-up activities pertaining to all reported findings and recommendations.
- Bring to the attention of the Board any audit issues the Committee determines significant and appropriate for consideration by the Board.
- On a regular basis, meet separately with the CAE to discuss any matters that the Committee or internal audit believes should be discussed privately. *{Subject to open meeting laws.}*
- Obtain and review the quality assurance report for the Internal Audit Department at least once every five years. Review for any concerns noted.
- Delegate to the CAE the oversight and management of the contracts of all public accounting firms hired by the organization.
- Designate the CAE as the primary point of contact for handling all matters related to audits, examinations, investigations or inquiries of the state auditor, and other state or federal agencies.

#### ***E. Engagement of External Auditors***

- Obtain information and/or training to enhance the Committee’s understanding of the organization’s financial statements audit and the role of external auditors.
- Approve the appointment, retention, or discharge of the external auditors. Obtain input from the CAE, management, and other parties as appropriate.
- Approve all audit and non-audit services to be performed by the external auditors.
- Review the external auditors’ proposed audit scope and approach, including the coordination of efforts with internal audit.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the organization for all audit and non-audit services.
- On a regular basis, meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately. *{Note: Subject to open meeting laws.}*
- Provide guidelines and mechanisms so that no Committee member or organization staff shall improperly influence the external auditors.

- Obtain and review annually a list of all payments to the external auditors. The list should separately disclose the payment for the financial statements audit, other attestation projects, and non-audit services provided.
- Obtain and review the peer review report for the external audit firms on a periodic basis. Review for any concerns noted.

#### ***F. Compliance***

- Review the effectiveness of the organization's system for monitoring compliance with laws, regulations, contracts, and policies and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies, any auditor observations related to compliance, and the responsiveness and timeliness of management's actions to address the findings/observations.
- Review the process for communicating and monitoring compliance with the code of ethics, code of conduct, and fraud policies.
- Obtain regular updates from management and organization legal counsel regarding compliance matters.

#### ***G. Special Investigations and Whistleblower Mechanism***

- Institute and oversee special investigations, as needed.
- Ensure the creation and maintenance of an appropriate whistleblower mechanism for reporting any fraud, noncompliance, and/or inappropriate activities.
- Retain independent counsel, accountants, or other specialists to advise the Committee or assist in the conduct of an investigation.

#### ***H. Other Responsibilities***

- Report at least annually to the Board the Committee's activities, audit issues, and related recommendations.
- Confirm annually that all responsibilities outlined in this Model AC Charter have been carried out.
- Review and assess annually the adequacy of this Model AC Charter; request Board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.

- Evaluate annually the Committee's and individual member's performance and report the results of the evaluation to the Board.
- Provide an open avenue of communication between the internal auditors, external auditors, management, and the Board.
- Perform other activities related to this Model AC Charter as requested by the Board.

## VI. SIGNATURE PAGE

This Model AC Charter was adopted by the Committee on (date) and approved by the Board. This Model AC Charter is effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

\_\_\_\_\_

Chair, Audit Committee

\_\_\_\_\_

Date

\_\_\_\_\_

Chair, Board of Trustees

\_\_\_\_\_

Date

## REFERENCES

The Institute of Internal Auditors' Model Audit Committee Charter

Audit Committee Charter of the various public pension fund systems who are members of APPFA



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