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Office of the President
September 9, 2016

Members, Audit and Compliance Committee:

PROPOSED REVISIONS TO AUDIT AND COMPLIANCE COMMITTEE CHARTER

Recommendation: that the revisions to the Charter of the Audit and Compliance Committee be approved effective September 9, 2016.

Background: The Audit Subcommittee approved the initial Subcommittee Charter on September 21, 2004. The Audit Subcommittee revised the Charter on March 27, 2012 in responses to a recommendation set forth in the Quality Assessment Review of the Office of Internal Audit dated October 2009. The Audit and Compliance Subcommittee revised the Charter September 10, 2013 in response to the University Governing Regulation, Part II amendment approved by the Board of Trustees and effective July 1, 2013.

The proposed revisions to the Charter are in response to the revised Governing Regulation (GR) II approved by the Board of Trustees at its September 2015 meeting. The revision moved the Audit and Compliance Subcommittee from its subcommittee status of the Finance Committee to a regular standing committee of the Board.

Action taken: Approved Disapproved Other _____

University of Kentucky
Charter of the Audit and Compliance Committee of the Board of Trustees

Purpose

The Audit and Compliance Committee provides oversight of the quality and integrity of the University's auditing functions and external financial reporting. The Audit and Compliance Committee does not provide expert or special assurance regarding the University's financial statements.

In accordance with University Governing Regulation, Part II, E-2-c, the Audit and Compliance Committee:

- 1) Reviews recommendations and appoints the external auditors,
- 2) Receives and reviews the annual financial and other reports from the external auditors and reports on such to the Board of Trustees, and
- 3) Receives and reviews reports from the Chief Audit Executive on the University's system of internal controls and compliance with applicable laws, regulations, and University policies and reports on such to the Board of Trustees.

Authority

The Audit and Compliance Committee's purpose is carried out with functional authority over the external and internal auditors and the authority to initiate investigations into any matters within its scope of responsibility.

Structure

The Audit and Compliance Committee membership shall be composed of a minimum of three and no more than seven members from the Board of Trustees utilizing the standard nomination and appointment process for committee formation and Chair selection. Members should be independent of management and without business relationships that could interfere with the exercise of good judgment, disclosing any conflicts. Any dispute regarding independence should be reviewed by the Office of Legal Counsel for final resolution. At least one member of the Audit and Compliance Committee should have accounting or financial expertise.

Meetings

All members are expected to attend each meeting; a quorum will be fifty percent plus one. The Audit and Compliance Committee may invite members of management, external or internal auditors, or others to attend meetings and provide pertinent information.

Audit and Compliance Committee Responsibilities

General Responsibilities

- Review, approve and periodically revise, if necessary, this Charter of the Audit and Compliance Committee of the Board of Trustees.
- Review any significant findings and recommendations of the external or internal auditors, together with management's responses. Report such findings and recommendations to the Board of Trustees if not resolved in a timely manner.

Annual Financial Reporting Responsibilities

- Review the planned audit scope of the financial reports with the external auditors and the University's senior administrators.
- Review the financial results for the year per the completed audit with the external auditors and the University's senior administrators.
- Review significant accounting and reporting issues, including complex or unusual transactions in highly judgmental areas and recent regulatory pronouncements and their impact on the financial statements.
- Report results/findings to the Board of Trustees.

External Auditors

- Approve the selection or discharge of the external auditors. The auditors' fees are to be negotiated by the Executive Vice President for Finance and Administration, or designee, and summarized annually for the Audit and Compliance Committee.
- Ensure continued quality and independence of external auditors by periodically examining internal quality-control reports or peer reviews of the firm. Additionally, review and confirm the external auditors' independence by obtaining statements from the auditors on any relationships between the auditors and the University.
- Report results/findings to the Board of Trustees.

Internal Auditors

- Review, approve and periodically revise, if necessary, the Internal Audit Charter.
- Approve the selection, reassignment or dismissal of the chief audit executive.
- Review the objectivity, resources and overall effectiveness of the Office of Internal Audit including compliance with The Institute of Internal Auditors' *International Professional Practices Framework*.
- Review and approve the Internal Audit work plan.
- Review the annual performance of the Office of Internal Audit.
- Obtain regular updates from the chief audit executive regarding the effectiveness of the University's system of internal controls and compliance with applicable laws, regulations, and University policies.
- Report results/findings to the Board of Trustees.