

# **University of North Carolina School of the Arts**

## **Audit Committee Charter**

### **PURPOSE**

The audit committee assists the University of North Carolina School of the Arts (UNCSA) Board of Trustees in fulfilling its oversight responsibilities of the institution and associated entities which fall under the requirements established by the Board of Governors in the following areas:

1. The financial reporting process;
2. The effectiveness of the institution's internal control and risk management system;
3. The audit process;
4. The institution's process for monitoring compliance with laws and regulations; and
5. The institution's code of conduct.

The committee is responsible for maintaining open communication between the university's internal auditor, UNCSA management and the UNCSA Board of Trustees. The committee will take all appropriate actions to set the overall tone at the institution for quality financial reporting, effective internal control and ethical behavior.

### **AUTHORITY**

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

1. Appoint, compensate, and oversee the work of the North Carolina Office of the State Auditor and any other registered public accounting firm employed by the organization;
2. Resolve any disagreements between management and the auditor regarding financial reporting;
3. Pre-approve all audit and nonaudit services;
4. Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation;
5. Seek any information it requires from employees — all of whom are directed to cooperate with the committee's requests — or external parties; and
6. Meet with the organization's officers, external auditors, or outside counsel as necessary.

### **COMPOSITION**

1. The audit committee shall be a standing committee of at least three, and no more than six, members of the Board of Trustees.
2. The Chair of the Board will select both the chair of the audit committee and the members of the committee.
3. The Chair of the Board will serve as an Ex Officio member of the audit committee.
4. Voting committee members must be comprised only of trustees, however, committee members may be non-trustees. Non-trustee committee members shall have all of the rights and responsibilities of trustee members, except the right to vote.
5. Each committee member must be independent of UNCSA management and free of any relationship that would impair such independence. Members may not receive from UNCSA any consulting, advisory, or other fees paid monetarily or with other consideration. This is not intended to prevent committee members from receiving travel expense reimbursements for participating in meetings or meals furnished at meetings.
6. Each audit committee member will be financially literate. Financial literacy is defined as being able to read and understand fundamental financial statements. If possible, at least one member should be a "financial expert." This is defined as a person who has an understanding of generally accepted accounting principles and financial statements, the ability to assess the application of these principles, an understanding of audit committee functions, experience preparing, auditing,

analyzing or evaluating financial statements, or experience supervising persons engaged in such activities and an understanding of internal controls and procedures for financial reporting.

## **MEETINGS**

1. The audit committee will meet at least four times a year, with authority to convene additional meetings as circumstances require.
2. All audit committee members are expected to attend each meeting in person or via teleconference or videoconference.
3. A majority of the voting members of the committee will constitute a quorum.
4. The audit committee will invite members of management, auditors, or others to attend meetings and provide pertinent information as necessary.
5. The audit committee will hold private meetings with internal and external auditors and executive sessions. If the internal or external auditors request a meeting, the committee is required to meet as promptly as possible.
6. Meeting agendas will be prepared by UNCSA staff and provided in advance to the committee members, along with the appropriate briefing materials.
7. The committee shall maintain written minutes of its meetings.

## **RESPONSIBILITIES**

With regards to each topic listed below, the audit committee will:

### **Financial Statements**

1. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and understand their impact on the financial statements.
2. Review with management and the external auditors the results of the audit, including any difficulties encountered.
3. Review the annual financial statements and other sections of the annual report and related regulatory filings.
4. Review with management and the external auditors all matters required to be communicated to the audit committee under auditing standards.
5. Understand how management develops financial information, and the nature and extent of internal and external auditor involvement.

### **Internal Control**

1. Review the effectiveness of the internal control system, including information technology security and control, through activities of the internal and external auditors.
2. Understand the scope of internal and external auditor's reviews of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
3. Determine whether recommendations made by the internal and external auditors have been implemented by management.

### **Internal Audit**

1. Review with management and the chief audit officer (CAO) the charter, activities, staffing, and organizational structure of the internal audit function.
2. Have final authority to review and approve the annual audit plan and all major changes to the plan.
3. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, compensation, replacement, or dismissal of the CAO.
4. Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
5. On a regular basis, meet separately with the CAO to discuss any matters that the committee or internal auditing believes should be discussed privately.

## **External Audit**

1. Review the external auditors' proposed audit scope and approach.
2. Review the performance of the external auditors and exercise final approval on their appointment or discharge.
3. On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

## **Compliance**

1. 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.
2. Review the findings of any examinations by regulatory agencies and any auditor observations.
3. Review the process for communicating the code of conduct to the organization's personnel and for monitoring compliance therewith.
4. Obtain regular updates from management and the organization's legal counsel regarding compliance matters.

## **Reporting**

1. Regularly report to the Board of Trustees about committee activities, issues, and related recommendations.
2. Provide an open avenue of communication among internal auditing, the external auditors, and the Board of Trustees.
3. Report annually to the UNC Board of Governors, describing the audit committee's composition, responsibilities and how they were discharged, and any other information required.
4. Review any other reports the organization issues that relate to the audit committee responsibilities.

## **Complaints and Ethics**

1. Ensure policies and procedures are established to allow employees to report alleged improper activities.

## **Other Responsibilities**

1. Review and assess the adequacy of the audit committee charter annually, requesting board approval for updates of its charter, as necessary.
2. Perform other activities related to this charter as requested by the Board of Trustees.
3. Institute and oversee special investigations as needed.
4. Evaluate the audit committee's and individual members' performance on a regular basis.
5. Consult with UNCSCA legal counsel to review any legal matters that may have a significant financial impact.
6. Ensure that the internal auditor receives continuing education annually.
7. Ensure that the internal auditor participates in the University of North Carolina Auditors' Association and other professional organizations in order to stay updated on developments with auditing procedures and other relevant issues.

Effective Date: This Charter becomes effective upon adoption by the Board of Trustees.

Adopted: This the 6<sup>th</sup> day of December 2013

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Robert L. King, III  
Chair, Board of Trustees  
UNC School of the Arts

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Donald E. Flow  
Chair, Audit Committee  
UNC School of the Arts