



Agenda Item Summary Sheet

Item No. 8

Meeting Date: 9/19/05

Item Title: County of Dare Audit Committee Charter

Item Summary:

The proposed charter would formalize the purpose, organization, and functions of the County of Dare Audit Committee.

(Use additional Paper if necessary)

Number of Attachments: 1

Will your presentation require audiovisual equipment? Yes No

Note: All audiovisual materials must be submitted in digital format to the Clerk of the Dare County Board of Commissioners with this sheet. Acceptable formats include: VHS, DVD, audio CD, Word document, Adobe Acrobat PDF files, PowerPoint files and jpeg files.

Specific Action Requested:

Discussion of the proposed charter.

Submitted By: David Clawson, Finance Director

Date: 9/9/05

Dept. Head

Comments:

Signature

Date:

Finance

Comments:

Signature Sally DeLoach *Date:* 9/9/05

County Attorney

Comments:

Signature

Date:

County Manager

Approval:

Signature [Handwritten Signature]

Date: 9/9/05

Commission Action:

County of Dare Audit Committee Charter

Purpose

The purpose of the Audit Committee of the Dare County Board of Commissioners (DCBC) is to assist the Board in fulfilling its responsibilities to:

1. Oversee the integrity of the County's financial statements;
2. Oversee the integrity of the County's financial and related information reporting processes;
3. ~~Select~~ Recommend to the DCBC the County's independent auditor and evaluate the auditor's qualifications, performance and independence;
4. Monitor the performance of the County's internal audit function and system of internal controls;
5. Monitor the compliance of the County with laws and regulations that may have a material effect on the County's financial statement; and
6. Assess the County's exposure to financial risk.

In discharging its responsibilities, the Audit Committee shall maintain open and direct lines of communication with the DCBC, the County's independent auditor, and County management and financial staff. However, the Committee is authorized to investigate any matter within the scope of its duties and responsibilities with full access to the relevant County books, records, facilities and personnel. The Committee is also responsible for resolving any disagreements between County management and the independent auditor.

Notwithstanding the powers and responsibilities delegated to the Audit Committee, its role is limited to oversight. County management is responsible for the preparation, presentation and integrity of the County's financial statement, as well as the County's financial reporting process, accounting policies, internal audit functions, internal accounting controls, and disclosure controls and procedures. The external independent auditor is responsible for performing an audit of the County's annual financial statements and expressing an opinion as to the conformity of such financial statements with generally accepted accounting principles. The Committee has no responsibility for planning or conducting audits or for determining whether the County's financial statements and disclosures are complete and comply with generally accepted accounting principles and applicable laws, rules and regulations. Committee members are entitled to rely on the County personnel charged with responsibility for these functions under the direction of the County Manager and County Finance Officer, as well as the external auditor and other professionals employed by the Committee, if any.

Organization of Committee and Qualifications of Members

Members of the Audit Committee shall be appointed biennially in January of even-numbered years. They shall serve until their successors are elected and qualified or until their earlier resignation, removal, incapacity or death.

The Committee shall have three members appointed by the DCBC, including a Chairperson. The Chairperson and one other member shall be Dare County Commissioners. At least one member of the Committee shall be a “financial expert”.

Collectively, members of the Audit Committee should possess the experience in accounting, auditing, financial reporting and finance needed to understand and resolve issues raised by the independent audit of the County’s financial statements and by the results of external audits.

All members of the Audit Committee shall be free of any relationship, which, in the judgment of the DCBC, could interfere with their exercise of “independent” judgments as Committee members. Each member must also satisfy all applicable membership and independence requirements set forth in any rules or regulations issued by regulatory bodies.

If there is any basis for believing that an Audit Committee member is not independent, the facts and circumstances should be reported to the Dare County Attorney and the DCBC, and no action should be taken until the DCBC has determined whether the member is independent.

Members of the Audit Committee shall be paid \$100 for each regular meeting attended and \$50 for each special meeting.

Meetings and Procedures

The Audit Committee shall hold four regular meetings each year – one each quarter – and as many special meetings as circumstances dictate.

The County Manager and County Finance Officer or their designees will attend Audit Committee meetings as advisors, unless otherwise notified by the Committee Chairperson

The Committee shall meet separately from management with the independent auditor at least twice a year. (Dave Clawson suggests: The Committee will meet as considered necessary with the Independent auditor. Meetings may be done by conference call.)

The Chairperson shall prepare and distribute an agenda in advance of each meeting.

The Committee shall maintain minutes or records of all meetings and activities. Unless otherwise determined by the Audit Committee, the Clerk to the DCBC shall attend all Committee meetings and act as Secretary to the Committee. The Secretary will be responsible for minutes of the meetings and for providing legal notices of the meetings to the members and to the public in compliance with North Carolina’s “open meeting statutes.”

A quorum shall be a majority of members of the Committee.

Assistance from Others

The Audit Committee may request reports from the County Manager or County Finance Officer. The Committee may also retain outside experts to advise or assist it, including counsel,

accountants, financial analysts or others, and the DCBC shall provide sufficient funding for such expenses.

Relationship with Independent Auditor

The independent auditor is accountable to and reports to the DCBC and its Audit Committee. The Committee is directly responsible for the appointment, level of compensation, retention and oversight of the work of the independent auditor, including resolution of disagreements between County management and the independent auditor regarding financial reporting.

Responsibilities and Duties

The common recurring activities, delineated below, describe the responsibilities and duties of the Audit Committee in fulfilling its purpose. This listing is only a guide; the Committee may perform additional functions and adopt additional policies and procedures, as appropriate, in view of changing business, financial or regulatory conditions.

A. Independent Auditors

1. Understand the external audit process.
2. Oversee the work of the independent auditor, including pre-audit review of the cost, scope, general plans and adequacy of staffing for the audit.
3. Review and address: problems which occur during the audit process; disagreements with management, if any; accounting adjustments noted or proposed by the auditor but not included in the financial statements; and any material written communications between the auditor and County management or the Audit Committee.
4. Evaluate, at least annually, the qualifications, performance and independence of the auditors, including an evaluation of the lead partner on the audit.
5. Establish policies with regard to rotation of the lead partner on the County audit, maximum period of time for procuring audit services from the same firm (or successor firm) – e.g., four years, permissibility of contracting for non-audit services by the independent auditor, and circumstances under which an employee or former employee of the independent auditor could become a Dare County employee. Also monitor compliance with these policies.
6. Evaluate and recommend to the DCBC, on an annual basis, retention or replacement of a firm to conduct the County audit for the next year. Pre-approve all audit or non-audit services, including fees and terms, to be provided by the independent auditor.
7. Annually, review a report (from the independent auditor), which describes the firm's own internal quality control procedures, any material issues raised by its most recent quality control review, and corrective action taken, if any.
8. Review and respond to internal audit reports provided from the internal audit function in the County's Finance Department.

B. Financial Reporting and Disclosures

1. During the timeframe of the audit, receive, review and discuss with the independent auditor:
 - a. All critical accounting policies and practices to be used;
 - b. All alternative disclosures and treatments of financial information within generally accepted accounting principles (GAAP) that have been discussed with management, ramifications of using the alternatives, and the treatment preferred by the auditor; and
 - c. Other material written communications between the auditor and county management.
2. Review and discuss with County management and the independent auditor the annual audited financial statements for the County, including;
 - a. The auditor's judgment concerning the financial and accounting policies and principles used by the County;
 - b. Significant financial reporting issues and judgments made in preparing the financial statements, including any changes to the County's selection of GAAP or financial statement presentations;
 - c. The County's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";
 - d. Major concerns about the adequacy of the County's internal financial controls or financial reporting system and steps that should be taken to address material deficiencies or weaknesses; and
 - e. Any correspondence with regulators or other government agencies that raise material issues regarding the County's financial statements or accounting policies.
3. Discuss with the independent auditor:
 - a. The "Management Letter" provided by the auditor and the County's response to that letter;
 - b. Any difficulties encountered in the course of the audit work, including any restrictions on the scope of the audit activities or access to requested information and any significant disagreements with management; and
 - c. Changes made or to be made to the County's financial and/or accounting policies or principles as suggested by the independent auditor.
4. Discuss with management and the independent auditor the effect of significant new or pending regulatory and accounting initiatives.
5. Review and discuss with County management;
 - a. Financial information and guidance to be provided to ratings agencies and analysts.

Changes to This Charter

At least annually, the Audit Committee shall review this charter to evaluate the need for possible changes. If the Committee believes that any changes are necessary or advisable, it will present and propose the changes to the DCBC for consideration and approval.

Definitions

1. **Auditor Independence** – Absence of personal and financial relationships between the auditing firm (including the accountants assigned to do the County’s audit), County managerial staff, Audit Committee members and major County contractors (who do more than \$25,000 of business with Dare County); see **Independent** below
2. **Committee** – means the Audit Committee
3. **County or County’s** – refers to the government of the County of Dare in North Carolina, including the Social Services, Health and Sheriff’s Departments and other entities which are at least partially manned by County employees
4. **County Management** – see Management
5. **DCBC** – Dare County Board of Commissioners
6. **Financial Expert** – possess accounting or related financial management expertise and experience
7. **Financially Literate** – possess working familiarity of accounting, auditing and financial reporting sufficient to understand and resolve issues associated with the County’s financial statements and accounting and control systems.
8. **GAAP** – generally accepted accounting principles
9. **Independent** –
 - a. Has not participated in preparation of Dare County’s financial statements at any time during the past three years
 - b. Has not been an employee of Dare County, except as a County Commissioner, for the past five years
 - c. Has not received, in the past three years, more than \$15,000 per year in direct compensation as an employee or owner of a company which makes payments to or receives payments from Dare County
 - d. Has no personal service contracts with any of the County’s senior management personnel
 - e. Is not an employee or officer on a board of a not-for-profit entity that receives more than 5% of its total charitable funding from the County
 - f. Does not have beneficial ownership of 5% or more in any entity that has received remuneration from the County
 - g. Has not received, in the past three years, remuneration as the result of services to or affiliation with an entity which serves as an advisor, consultant, attorney or significant supplier to the County
 - h. Family members (especially spouse, parents, children and siblings) shall also meet the above criteria
10. **Management** – generally refers to the County Manager, the County Finance Officer and directors of County departments.
11. **Open Meeting Statutes** – primarily references North Carolina General Statute 143-318, which in part addresses the requirement for nearly all meetings of governmental entities in North Carolina to be open to the public.