

# **County of Orange**

## **Audit Oversight Committee Charter**

### **1.0 Introduction**

- 1.1 The Audit Oversight Committee (AOC) is an essential component of the County's governance structure and a critical aspect of strong and credible financial reporting and internal audit functions.
- 1.2 The Board of Supervisors Resolution No. 95-271, dated April 25, 1995 established the Audit Oversight Committee. General provisions, appointments, scope, authority and objectives are contained in the Bylaws of the Orange County Audit Oversight Committee as approved by the Board of Supervisors on December 14, 2010.

### **2.0 Purpose**

- 2.1 The Audit Oversight Committee is an advisory committee to the Board of Supervisors and provides oversight of the County's internal and external audit coverage. The Committee assists the Board in ensuring the independence of the internal audit functions and ensuring that appropriate action is taken on audit findings. The Committee helps to promote and enhance effective internal controls for County operations, and serves as an important communication link between external auditors, internal auditors, and operating management.

### **3.0 Membership**

- 3.1. Ideally, public members should have expertise in accounting, auditing, financial reporting, and internal control. Although these desired traits are not mandatory, public members need to be sufficiently informed about these topics to be able to make informed decisions with the assistance of a financial expert.
- 3.2 New members shall receive some formal training on the role of the audit committee, as well as on their personal responsibility as audit committee members. This training should underscore the duty of committee members to exercise an appropriate degree of professional skepticism.

### **4.0 Meetings**

- 4.1 The AOC shall meet at least quarterly, with authority to convene additional meetings as circumstances require. All meetings shall be subject to the Ralph M. Brown Act.
- 4.2 The chair is required to call a meeting if requested to do so by the Board or another AOC member.
- 4.3 The quorum for a meeting shall be a majority of the members, and decisions made by a majority vote of the members present shall be regarded as acts of the AOC.
- 4.4 All Committee members will have an equal voice in the decision-making process. Due to the scope of the Committee's assignment, and the value of each member's input, consistent attendance by all members is expected, however, a substitute may attend the meeting with the member's proxy.
- 4.5 The Director of Internal Audit shall attend all meetings of the AOC. The chair may request the attendance of other County officials.

## **County of Orange**

### **Audit Oversight Committee Charter**

- 4.6 The chair may, as necessary, ask senior representatives of the Office of the Performance Auditor and the Internal Audit Unit of the Auditor-Controller to attend AOC meetings to discuss plans, findings and other matters of mutual concern.
- 4.7 County staff will keep minutes of each meeting and offer them for Committee approval as the first item on the subsequent meeting agenda. Whenever possible, such minutes will be distributed to Committee members in draft form within a reasonable time after the meeting and in advance of the subsequent meeting.
  - a. Minutes of each meeting shall be kept and shall contain a record of the persons present. The minutes should provide a record of decisions taken and a high-level summary of the discussion, providing insight on the topics and subtopics discussed.
  - b. If the minutes were corrected or amended upon the regular order of business, the minutes of each Committee meeting will be sent to the Board members once approved by the Committee.
- 4.8 Reports distributed in conjunction with the AOC agenda shall be distributed in accordance with the Ralph M. Brown Act in advance to allow their review.
- 4.9 The Committee's meeting schedule will normally be set out one year in advance so that County management and internal auditors can prepare the information and reports required to support the Committee's work.

#### **5.0 Operations**

- 5.1 The AOC's charter shall be submitted to the Board for approval. The document shall be reviewed periodically, no less than every three years, by the AOC and reaffirmed by the Board. Reassessments should specifically take into account any changes that may be needed as the result of changes in law, regulation, or professional standards.
- 5.2 The Chair of the AOC shall prepare a plan to ensure that the annual and ongoing responsibilities of the Committee are scheduled and fully addressed. The plan shall be presented to the Committee for its approval.
- 5.3 The AOC shall prepare a timetable of its annual schedule of activity. The timetable should map out the responsibilities of the Committee against the calendar.
- 5.4 Members shall be briefed on the Committee's purpose, responsibilities, objectives, and on the business of the County. A process of continuing education (e.g., briefings and information on emerging issues and risks) shall also be put in place.
- 5.5 The AOC shall be provided with the resources necessary to carry out its role, responsibilities, and duties. To the extent it deems necessary to meet its responsibilities, and in keeping with its charter, the AOC has the authority to retain independent advice and assistance pursuant to County purchasing policy and procedures.

## County of Orange Audit Oversight Committee Charter

- 5.6 The AOC may request funds needed for its operation during the County's normal budget process. Such appropriation will be included within the Internal Audit Department's budget to be administered by the Director of Internal Audit. Any funds not used for the purposes directed by the committee shall be returned to the County's General Fund at the conclusion of each fiscal year.
- 5.7 The AOC shall be provided with support by the Internal Audit Department. This includes:
- a. the timely preparation of all notices and agendas of meetings;
  - b. coordination of presentations and distribution of reports and/or related documents that are prepared for the AOC's information or consideration;
  - c. the timely preparation and distribution of minutes of meetings; and
  - d. performance of other duties as may be assigned.

### 6.0 Responsibilities and Duties

- 6.1 The AOC's key areas of responsibility are:

6.1.1 *Values and Ethics*: The AOC shall review, at least annually, the arrangements established by County management to exemplify and promote public service values and ethics and to ensure compliance with laws, regulations, policies, and standards of ethical conduct.

6.1.2 *Financial Statements and Reporting*: The AOC shall:

- a. review with the independent auditor, the Auditor-Controller, and the Director of Internal Audit, the scope and plan of the internal auditors and the independent auditors;
- b. address the coordination of audit efforts to assure completeness of coverage, reduction of redundant efforts and the effective use of audit resources;
- c. review the audited financial statements with the external auditor and senior management,
- d. discuss any significant adjustments to the statements required as encountered in the course of the audit;
- e. discuss with County Counsel and the Director of Internal Audit 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;
- f. review management letters arising from the external audit of the County's financial statements and management's responses thereto;
- g. review the independent auditor's judgments about the quality, not just the acceptability, of the County's accounting principles as applied in its financial reporting;
- h. review the independent auditor's single audit of the federal awards administered by the County and their reports thereon;
- i. review any significant changes required in the independent auditor's audit plan;
- j. review all matters required to be discussed by accounting standards;
- k. review with management and the independent auditor the effect of any regulatory and accounting initiatives, such as related organizations financing structures, derivatives, or securities lending;
- l. review any serious difficulties or disputes with management encountered during the audit;

## **County of Orange**

### **Audit Oversight Committee Charter**

- m. review all critical accounting policies and practices used by the County; and
- n. review all alternative treatments of financial information within generally accepted accounting principles that have been discussed with County management, the ramifications of each alternative and the treatment preferred by the County.

6.1.3 *Oversight of the External Auditors:* The AOC is directly responsible for recommending to the Board of Supervisors the appointment, compensation, retention and oversight of the work of independent auditors engaged for the purpose of issuing an independent audit report or performing other independent audit review, or attest services.

- a. The AOC is responsible for recommending the procurement of external audit services for the Consolidated Annual Financial Report, including all component units and the single audit of federal funds.
- b. The AOC prepares the RFP, evaluates responses, and recommends the external auditor to the Board of Supervisors.
- c. Auditors are contracted for three years with two optional one year extensions. The AOC will recommend whether to exercise the extensions to the Board of Supervisors.
- d. The AOC will approve all non-audit work to be conducted by the independent auditors

6.1.4 *Internal Audit Functions:* The Committee shall:

- a. recommend, and review regularly, the County's internal audit charters for approval by the Board;
- b. review regularly the adequacy of resources of the internal audit functions;
- c. review and approve the risk assessment and internal audit plan prepared by the Director of Internal Audit;
- d. review significant findings during the year and management's responses thereto;
- e. review any difficulties the internal auditors encountered in the course of their audits, including any restrictions on the scope of their work or access to required information;
- f. review any changes required in the scope of their internal audits;
- g. receive audit reports and management action plans to address recommendations; and
- h. be aware of audit engagements or tasks that do not result in a report to the Committee and be informed of all matters of significance arising from such work.

6.1.5 *Oversight of the Internal Auditors:* The AOC shall:

- a. Ensure that an external quality control review of the Internal Audit Department be conducted every three years by an organization not affiliated with the internal audit department in accordance with the United States General Accounting Office's Government Auditing Standard and/or the Institute of Internal Auditors Standards at the discretion of the department head.
- b. review regularly the performance of the internal audit functions (e.g., review conclusions of external quality assurance reviews and related remedial actions taken);

## **County of Orange**

### **Audit Oversight Committee Charter**

- c. should the position of Director of Internal Audit be vacated, advise the Board on the appointment of the Director of Internal Audit;

6.1.6 *Follow-up on Management Action Plans:* The AOC shall:

- a. ensure that there are effective arrangements in place to monitor and follow-up on management action plans responding to recommendations from internal audits or other sources;
- b. review and reconcile differences of opinion between management and auditors arising from the audit process;
- c. receive periodic reports from management on actions taken; and
- d. receive reports from the Director of Internal Audit on whether management's action plans have been implemented and whether the actions taken have been effective. The Director of Internal Audit's report shall identify any areas where he/she believes management has accepted a level of risk that is unacceptable to the County.

6.1.7 *Comprehensive Framework of Internal Control:* The AOC will discuss the responsibilities for reviewing the comprehensive framework of internal control. The AOC should consider a number of factors:

- a. the adequacy of the County's internal controls including computerized information systems;
- b. significant risks or exposures facing the County and the steps management has taken or proposes to take to minimize such risks;
- c. findings of the independent and internal auditors;
- d. audit adjustments;
- e. code of conduct;
- f. management's involvement with internal control;
- g. special control challenges;
- h. complaints; and
- i. pending accounting and regulatory changes.

6.1.8 *Internal Disclosure of Information Concerning Wrongdoing in the Workplace:* The AOC shall establish procedures for the receipt, retention, and treatment of complaints and concerns of employees who perceive that a wrongdoing has been committed or will be committed regarding questionable accounting, internal accounting controls and auditing matters.

## **7.0 Accountability Reporting by the AOC**

7.1 The AOC shall prepare an annual report to the Board of Supervisors. This report shall:

- a. summarize the Committee's activities undertaken and the results of its reviews;
- b. state the Committee reviewed the County Management's Representation Letter submitted annually to the external auditors;
- c. document any significant concerns the Committee may have in relation to the County's risk management, controls and accountability processes;
- d. provide the Committee's assessment of the capacity and performance of the internal audit function;

**County of Orange**  
**Audit Oversight Committee Charter**

- e. provide such other information or documentation that the Committee deems important to best convey a fair and complete picture of its activity and results – and the context within which this ought to be viewed; and
- f. assert the audit committee has discussed the financial statements with both management and the independent auditors.

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References:

Approved December 14, 2010, Board of Supervisors

Revised November 16, 2010, Audit Oversight Committee

Approved June 3, 2010, Audit Oversight Committee