

Audit Committees and Internal Audit Functions

I. Resources:

1. 53G-4-201 Selection and election of members to local school boards

Members of local school boards shall be elected as provided in [Title 20A, Chapter 14, Nomination and Election of State and Local School Boards](#).

2. 53G-4-301 Local superintendent of schools – Appointment

(1) ... a local school board shall appoint a district superintendent of schools who serves as the local school board's chief executive officer.

(3) (a) A superintendent's term of office is for two years and until...a successor is appointed and qualified.

3. 53G-4-302 Business administrator

(1) ... a local school board shall appoint a business administrator.

(2) (a) The business administrator's term of office is for two years and until...a successor is appointed and qualified.

4. 53G-7 Part 4 Internal Audits

See Audit Committee and Internal Audit Section below.

5. Professional Internal Auditing Standards

According to 53G-7-401(5)(c), internal audits must be conducted in accordance with either:

- International Standards for the Professional Practice of Internal Auditing (Global Internal Audit Standards or the [Red Book](#))
 - Essential Conditions (see pages 5-9)
- Government Auditing Standards (the [Yellow Book](#))

6. Training

- Three modules about audit committees and internal audit functions are available here: <https://www.schools.utah.gov/internalaudit/index>

II. Audit Committee and Internal Audit

1. Audit Committee Composition

The composition of an LEA audit committee is given in law (53G-7-401(1)) as follows:

(1) "Audit committee" means a standing committee:

- (a) appointed by the local school board or charter school governing board with the following number of members as applicable to the local school board or charter school governing board:

- (i) for a board of a local education agency that consists of seven or more members, three members of that board; or
 - (ii) for a board of a local education agency that consists of six or fewer members, two members of that board; and
- (b) composed of people who are **not** administrators or employees of the local education agency.

2. Audit Director (i.e., Chief Audit Executive)

At the advisement of the audit committee, the local school board appoints or contracts an audit director to direct the internal audit program as established by the audit committee (53G-7-401(2) and 53G-7-402(3)) and in accordance with current professional internal auditing standards (53G-7-401(5)(c)).

Professional internal auditing standard 9.4.B states: “*The chief audit executive [audit director] must base the internal audit plan on a documented assessment of the organization's strategies, objectives, and risk. This assessment must be informed by input from the board and senior management as well as the chief audit executive's understanding of the organization's governance, risk management, and control processes. The assessment must be performed at least annually.*”

3. Independence

The law (53G-7-401) also underscores the importance of independence as follows:

(4) "Internal audit" means an **independent appraisal activity** established within a local education agency as a control system to examine and evaluate the adequacy and effectiveness of other internal control systems within the local education agency.

(5) "Internal audit program" means an audit function that: (a) is conducted by a local school board or charter school governing board **independent of the local education agency offices or other operations**; (b) objectively evaluates the effectiveness of the local education agency governance, risk management, internal controls, and the efficiency of operations;

Professional internal auditing standards also address independence. Examples from the Red Book, as noted in the Essential Conditions document referenced above, include:

- Board (i.e., audit committee per 53G-7-402 (2)): “In an organization that has more than one governing body, “board” refers to the body or bodies authorized to provide the internal audit function with the appropriate authority, role, and responsibilities” (III. Governing the Internal Audit Function, Definition of Board).
 - * *Establish a direct reporting relationship with the chief audit executive and the internal audit function to enable the internal audit function to fulfill its mandate.*

- *“Require that the chief audit executive be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management.”*
- *“Engage with senior management to ensure that the internal audit function is free from interference when determining its scope, performing internal audit engagements, and communicating results.”*
- *“Provide the chief audit executive with opportunities to discuss significant and sensitive matters with the board, including meetings without senior management present.”*
- Senior Management
 - **Communicate senior management's perspective on the organization's strategies, objectives, and risks to assist the chief audit executive with determining internal audit priorities.**
 - **Recognize the chief audit executive's direct reporting relationship with the board.**
 - **Work with the board and management throughout the organization to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.**

III. Audit Committee Logistics

The law gives a local school board some discretion when determining audit committee logistics (e.g., length, frequency, and structure of meetings; agenda; attendance). Documenting these logistics in local school board bylaws or policies promotes clarity, consistency, and transparency.

1. Participation

A. Local School Board Members

Local school board meetings must follow requirements of the Open and Public Meetings Act (52-4) when a quorum of local school board members is present. To maintain the records classification of “protected” and “private” for items discussed, audit committee should not be subject to open meetings requirements (i.e., should not have a quorum of local school board members in attendance, [53G-7-401(1)(a)]). If there is capacity for a non-audit committee member of the local school board to attend without invoking Open and Public Meetings Act, the local school board should have a policy and procedure to handle this situation.

B. LEA Administration and Employees

As noted above, administrators or employees of the local education agency may not be members of the audit committee. The audit committee or the local school board has discretion to determine the roles and responsibilities of LEA administrators and employees, or others specific to audit committee. When determining these roles and responsibilities considerations may include:

1. Need for the audit committee to discuss or evaluate the independent internal audit function and independent appraisals done by that function (see 53G-7-401(4)-(5) and professional standards) without administrators or employees of the LEA present.
2. Requirements in law, including:
 - a. Government Records Access Management Act - particularly for internal audits in-process and draft audit reports, which records are generally “protected”)
 - b. R123-5-4(1)(d) which requires that management not participate in evaluation of proposals (RFPs) for accounting services. Accounting services is defined as “a financial audit, a state compliance audit, or an agreed-upon procedures engagement provided by an auditor”.
3. Priorities of the LEA and resources for those priorities, including time.

IV. Summary

- The local school board establishes an audit committee (53G-7-402) and then, as applicable, hires or contracts an audit director at the advisement of the audit committee (53G-7-402 (3)).
- The audit committee, if applicable, establishes an internal audit program that provides independent internal audit services (e.g., audits) for the programs administered by the local education agency. (53G-7-402(2)).
- The audit director directs the internal audit program (53G-7-401)(2)), which:
 - Operates independent of the LEA’s administration and employees (53G-7-401(5)(a)),
 - Evaluates objectively the effectiveness of the local school board (i.e., governance) and administration (i.e., risk management, internal controls, and the efficiency of the operations), and
 - Follows required professional standards (53G-7-401(5)(c)).
- The local school board, audit committee, and management support the internal audit program’s ability to fulfill the purpose of internal audit by ensuring essential conditions are met (Global Internal Audit Standards, Domain III: Governing the Internal Audit Function, pg.37).

ESSENTIAL CONDITIONS

“...activities of the board and senior management are essential to the internal audit function’s ability to fulfill the Purpose of Internal Auditing. These activities are identified as “essential conditions” in each standard and establish a necessary foundation for an effective dialogue between the board, senior management, and chief audit executive, ultimately enabling an effective internal audit function.

(Global Internal Audit Standards p. 37)”

Internal Audit Mandate

(Domain III, Principle 6, Standard 6.1)

Board Responsibilities

Discuss with the chief audit executive and senior management the appropriate authority, role, and responsibilities of the internal audit function.

Approve the internal audit charter, which includes the internal audit mandate and the scope and types of internal audit services.

Senior Management Responsibilities

Participate in discussions with the board and chief audit executive and provide input on expectations for the internal audit function that the board should consider when establishing the internal audit mandate.

Support the internal audit mandate throughout the organization and promote the authority granted to the internal audit function.

Board and Senior Management Support

(Domain III, Principle 6, Standard 6.3)

Board Responsibilities

Champion the internal audit function to enable it to fulfill the Purpose of Internal Auditing and pursue its strategy and objectives.

Work with senior management to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.

Support the chief audit executive through regular, direct communications.

Demonstrate support by:

- Specifying that the chief audit executive reports to a level within the organization that allows the internal audit function to fulfill the internal audit mandate.
- Approving the internal audit charter, internal audit plan, budget, and resource plan.
- Making appropriate inquiries of senior management and the chief audit executive to determine whether any restrictions on the internal audit function's scope, access, authority, or resources limit the function's ability to carry out its responsibilities effectively.
- Meeting periodically with the chief audit executive in sessions without senior management present.

Senior Management Responsibilities

Support recognition of the internal audit function throughout the organization.

Work with the board and management throughout the organization to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.

Organizational Independence

(Domain III, Principle 7, Standard 7.1)

Board Responsibilities

Establish a direct reporting relationship with the chief audit executive and the internal audit function to enable the internal audit function to fulfill its mandate.

Authorize the appointment and removal of the chief audit executive.

Provide input to senior management to support the performance evaluation and remuneration of the chief audit executive.

Provide the chief audit executive with opportunities to discuss significant and sensitive matters with the board, including meetings without senior management present.

Require that the chief audit executive be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the board when necessary.

Acknowledge the actual or potential impairments to the internal audit function's independence when approving roles or responsibilities for the chief audit executive that are beyond the scope of internal auditing.

Engage with senior management and the chief audit executive to establish appropriate safeguards if chief audit executive roles and responsibilities impair or appear to impair the internal audit function's independence.

Engage with senior management to ensure that the internal audit function is free from interference when determining its scope, performing internal audit engagements, and communicating results.

Senior Management Responsibilities

Position the internal audit function at a level within the organization that enables it to perform its services and responsibilities without interference, as directed by the board.

Recognize the chief audit executive's direct reporting relationship with the board.

Engage with the board and the chief audit executive to understand any potential impairments to the internal audit function's independence caused by nonaudit roles or other circumstances and support the implementation of appropriate safeguards to manage such impairments.

Provide input to the board on the appointment and removal of the chief audit executive.

Solicit input from the board on the performance evaluation and remuneration of the chief audit executive.

Board Interaction

(Domain III, Principle 8, Standard 8.1)

Board Responsibilities

Communicate with the chief audit executive to understand how the internal audit function is fulfilling its mandate.

Communicate the board's perspective on the organization's strategies, objectives, and risks to assist the chief audit executive with determining internal audit priorities.

Set expectations with the chief audit executive for:

- The frequency with which the board wants to receive communications from the chief audit executive.
- The criteria for determining which issues should be escalated to the board, such as significant risks that exceed the board's risk tolerance.
- The process for escalating matters of importance to the board.

Gain an understanding of the effectiveness of the organization's governance, risk management, and control processes based on the results of internal audit engagements and discussions with senior management.

Discuss with the chief audit executive disagreements with senior management or other stakeholders and provide support as necessary to enable the chief audit executive to perform the responsibilities outlined in the internal audit mandate.

Senior Management Responsibilities

Communicate senior management's perspective on the organization's strategies, objectives, and risks to assist the chief audit executive with determining internal audit priorities.

Assist the board in understanding the effectiveness of the organization's governance, risk management, and control processes.

Work with the board and the chief audit executive on the process for escalating matters of importance to the board.

Resources

(Domain III, Principle 8, Standard 8.2)

Board Responsibilities

Collaborate with senior management to provide the internal audit function with sufficient resources to fulfill the internal audit mandate and achieve the internal audit plan.

Discuss with the chief audit executive, at least annually, the sufficiency, both in numbers and capabilities, of internal audit resources to fulfill the internal audit mandate and achieve the internal audit plan.

Consider the impact of insufficient resources on the internal audit mandate and plan.

Engage with senior management and the chief audit executive on remedying the situation if the resources are determined to be insufficient.

Senior Management Responsibilities

Engage with the board to provide the internal audit function with sufficient resources to fulfill the internal audit mandate and achieve the internal audit plan.

Engage with the board and the chief audit executive on any issues of insufficient resources and how to remedy the situation.