

**Program Oversight and Compliance Branch  
Internal Audit Services  
Audit and Financial Committee Charter – Roles and Responsibilities**

**Background**

California Government Code (GC) 13886 (a) requires that any governing body that oversees an agency that conducts internal audits establish an audit committee. In an effort to engage the Board to ensure effective governance over Covered California operations, senior management (executive leadership) requires an understanding of regulations and requirements surrounding internal audit, the audit committee, and senior management.

GC 13886 (a) further requires that the audit committee generally meet the frameworks recommended by the American Institute of Certified Public Accountants (AICPA) as set forth in the Audit Committee Toolkit for Government Organizations (here forward referred to as the Toolkit). The Toolkit acknowledges that the content contained therein is considered best practice for government entities. Specific responsibilities assigned to an audit committee are set forth in an audit committee charter that is approved by the Board.

Additionally, GC 13886.5 (a) requires that all state agencies that conduct internal audits shall conduct internal audit activity under the general and specified standards of internal auditing prescribed by the Institute of Internal Auditors or the Generally Accepted Government Auditing Standards issued by the Comptroller of the United States, as appropriate.

Furthermore, GC 13401 (b) states that each agency must maintain an effective system of internal control as an integral part of its management practices and that all levels of management of state agencies must be involved in assessing and strengthening the systems of internal control to minimize fraud, errors, abuse, and waste of government funds. GC 13402 prescribes that agency heads are responsible for the establishment and maintenance of a system or systems of internal control, and effective and objective ongoing monitoring of the internal controls within their state agencies, then goes on to further describe what this responsibility includes.

**Purpose**

The purpose of this document is to provide a recommendation of the roles and responsibilities to be included in the Covered California Audit and Financial Committee Charter as supported by requirements and best practices set forth by the California GC, IPPF standards, and the Toolkit.

Audit and Financial Committee Charter Roles and Responsibilities	Toolkit Best Practice	IPPF Standards	Yes, include.	No, do not include.	Owner
<b>AUTHORITY</b> Facilitate the resolution of disagreements between management and the independent auditor regarding financial reporting issues.	X	X	X		AC
Determine when a subject matter expert is required and hire advisers when needed.	X		X		AC
Meet with any covered California staff, Chairperson of the Board, independent auditors, outside counsel, and others as needed.	X		X		AC, IAS
<b>COMPOSITION</b> Audit committee shall comprise of two members of the Board to be appointed by the Board.			X		AC
At least one member of the committee shall have a working familiarity with finance, accounting, and auditing practices.	X		X		AC
Each audit committee member shall serve on the committee unless resigning or being removed, with or without cause by a majority vote of the Board.			X		AC
The audit committee may form and delegate authority to subcommittees consisting of one or more members when appropriate.	X		X		AC
<b>MEETINGS</b> The audit committee shall meet at least twice annually, or more frequently as their responsibilities dictate, and attend in person or via tele- or video-conference.	X		X		IAS
At least annually, the CAE will meet privately with the chair or any member of the Audit Committee to address issues related to internal and/or external audits of the organization.	X	X	X		IAS

Audit and Financial Committee Charter Roles and Responsibilities	Toolkit Best Practice	IPPF Standards	Yes, include.	No, do not include.	Owner
<b>RESPONSIBILITIES</b>					
<u>General</u>					
Be informed of the results of audit reports, reviews, assessments, and management letters, including any difficulties encountered. As necessary, meet with management and external or internal auditors for clarification.	X	X	X		IAS
Be informed of the status of corrective actions taken to address audit findings.	X	X	X		IAS
Be informed of, and respond to, enterprise risk management activities related to financial reporting, internal controls, compliance, and audit activities.	X		X		IAS
Be informed of Covered California’s Annual Whistleblower Notification, which provides the confidential process for reporting improper activities by state agencies and employees.	X		X		IAS
<u>Financial Statements</u>					
Be informed of and understand significant accounting reporting issues, including complex or unusual transactions, recent professional and regulatory pronouncements, and understand their impact on financial statements.	X	X	X		FMD
Be informed of the audited annual financial statements, and understand whether they are completed, consistent with information known to committee members, and reflect appropriate accounting principles.	X		X		FMD
As necessary, meet with the CFO or other staff for additional information regarding the above or to obtain explanations of significant financial reporting issues.	X		X		FMD
<u>Internal Control</u>					
Be informed of and understanding Covered California’s internal control processes and risk management and mitigation processes, to correct audit deficiencies.	X	X	X		IAS
Understand the scope of internal and external auditors’ review of internal control over financial reporting and program administration, and obtain reports on significant findings and recommendations, together with management’s responses.	X	X	X		IAS, FMD

Audit and Financial Committee Charter Roles and Responsibilities	Toolkit Best Practice	IPPF Standards	Yes, include.	No, do not include.	Owner
<u>Internal Audit</u> Approve the Internal Audit Services Charter.	X	X	X		IAS
Review and approve the internal audit department’s annual audit plan and scope of audits to be conducted.	X	X	X		IAS
Be apprised of the Internal Audit Services’ performance relative to its plan.		X	X		IAS
Ensure that the internal audit department follows the Institute of Internal Auditors International Professional Practice Framework, Generally Accepted Government Auditing Standards, and other auditing standards as appropriate, and maintains an effective quality assessment and improvement program.	X	X	X		IAS
Receive confirmation of the organizational independence of the internal audit activity from the Program Oversight and Compliance Branch Chief.	X	X	X		IAS
<u>Reporting</u> As needed, the committee shall make reports to the Board.	X		X		AC
As needed, the committee, or staff at its direction, shall report to the board with respect to financial and audit risks, findings, and recommendations the committee may deem appropriate.	X		X		AC
<b>ANNUAL PERFORMANCE EVALUATION</b> The committee shall participate in an annual self-assessment of effectiveness and efficiency of the committee facilitated by Internal Audit Services.	X		X		IAS
The Charter will be reviewed, as needed, for changes as prescribed by the Committee, Internal Audit Services, or Financial Management Division.	X		X		AC, IAS, FMD