

# VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY FINANCE AND AUDIT COMMITTEE OF THE BOARD OF VISITORS

## AUDIT CHARTER

### I. PURPOSE

The primary purpose of the Finance and Audit Committee is to assist the Board of Visitors in fulfilling its fiduciary responsibilities related to oversight of:

- The integrity of the university's financial accounting and reporting practices,
- The university's compliance with legal and regulatory requirements,
- Fiscal planning and the execution of fiscal plans,
- The maintenance of an effective system of internal controls, and
- The performance of the university's internal and independent audit functions.

The function of the Committee is oversight. University management is responsible for the preparation, presentation, and integrity of the university's financial statements, fiscal plans, and other financial reporting. University management is also responsible for maintaining appropriate financial accounting and reporting policies, procedures, and controls designed to assure compliance with generally accepted accounting principles and applicable laws and regulations. The Department of Internal Audit examines and evaluates the adequacy and effectiveness of the university's system of internal controls. The university's external auditor, the state Auditor of Public Accounts, is responsible for planning and conducting the financial statement examination in accordance with generally accepted government auditing standards.

The Committee is charged in the Bylaws of the Board of Visitors with separating its responsibilities for Finance and Audit, respectively, and with maintenance of a separate audit agenda and finance agenda for each meeting. This document and the related meeting planner are intended to identify and document the Committee's audit-specific oversight responsibilities in order that such sound practices will continue despite the turnover of Committee members. It also outlines the regularly scheduled review activities that will insure that the university continues to have an independent and objective internal audit function and obtains the greatest possible benefit from its external audits.

### II. COMPOSITION AND INDEPENDENCE

The Finance and Audit Committee will be comprised of three or more Visitors. Each committee member will be financially literate and shall fully comply with the State and Local Government Conflict of Interests Act, Section 2.2-3100 of the *Code of Virginia* as amended.

### **III. MEETINGS**

By statute the Board of Visitors, including the Finance and Audit Committee, must meet once a year, but traditionally holds four meetings a year. Additional meetings may occur more frequently as circumstances warrant. The Committee Chair should discuss the Audit agenda with the Director of Internal Audit and the university's Chief Financial Officer prior to each Committee meeting to finalize the meeting agenda and review the issues to be discussed.

### **IV. RESPONSIBILITIES**

In performing its audit oversight responsibilities, the Finance and Audit Committee shall:

#### **A. General**

1. Adopt a formal written charter that specifies the Committee's responsibilities and practices. The charter should be reviewed annually and updated as necessary.
2. Maintain minutes of meetings.
3. Authorize audits within the Committee's scope of responsibilities.
4. Report Committee actions to the Board of Visitors with such recommendations as the Committee may deem appropriate.
5. Meet in closed session, consistent with state law, (without members of senior management present, when appropriate) with the external auditors and/or the Director of Internal Audit to discuss matters that the Committee or the auditors believe should be discussed privately. The Director of Internal Audit shall have a regularly scheduled opportunity to meet privately with the Committee at each of its four annual meetings.

#### **B. Internal Controls, Risk Assessment, and Financial Reporting**

1. Consider the effectiveness of the university's internal control systems, including those over information technology and financial reporting.
2. Review the university's processes for assessing significant business risk exposures and the steps management has taken to monitor and control such exposures, including the university's risk assessment and risk management policies.
3. Understand the scope of internal and external audit reviews of internal control, and obtain reports on significant potential issues and recommendations, together with management's responses.
4. Review the annual financial statements with management and the external auditors to determine whether the external auditors are satisfied with the disclosure and content of the financial statements, including the nature and extent of any significant changes in accounting principles.
5. Review management's written responses to significant potential issues and recommendations of the auditors, including the timetable to correct the identified weaknesses in the internal control system.

6. Advise management that they are expected to provide a timely analysis of significant financial reporting issues and practices.

**C. External Auditors**

1. Make inquiries of management and the independent auditors regarding the scope of the external audit for the current year.
2. As necessary, discuss with the external auditors their processes for identifying and responding to key audit and internal control risks.
3. Review the coordination of internal and external audit procedures to promote an effective use of resources and ensure complete and efficient coverage of the university's risks.
4. Meet with the external auditors at the completion of the audit to receive and discuss the audit report(s).

**D. Internal Auditors**

1. Approve the Internal Audit Charter. The charter should be reviewed annually and updated as necessary.
2. Review and approve the annual audit plan and any significant changes to the plan.
3. Review the effectiveness of the internal audit function, including staffing resources, financial budget, training, objectivity and reporting relationships.
4. Review completed audit reports and progress reports on executing the approved annual audit plan.
5. Inquire of the Director of Internal Audit regarding any difficulties encountered in the course of the audits, including any restrictions on the scope of work or access to required information.
6. Review and concur in the appointment, replacement, reassignment, or dismissal of the Director of Internal Audit.
7. Evaluate the Director of Internal Audit's annual performance and make decisions regarding compensation.

**E. Compliance, Ethics and Business Conduct**

1. Require management to periodically report on procedures that provide assurance that the university's mission, values, and codes of conduct are properly communicated to all employees.
2. Periodically review the programs and policies of the university designed by management to assure compliance with applicable laws and regulations and monitor the results of the compliance efforts.
3. Monitor the university's conflict of interest policies and related procedures.

The attached "Audit Agenda Meeting Planner" is an integral part of this document. If the Board of Visitors meets less frequently than anticipated, the Planner will be adjusted accordingly.

**Virginia Polytechnic Institute and State University  
Finance and Audit Committee of the Board of Visitors  
Audit Agenda Meeting Planner**

| A=Annually; Q=Quarterly; AN=As Necessary<br>Q1, Q2, Q3, Q4 based on Fiscal Year (July – June)                                                                                                                                                                                             | Frequency |   |    | Planned Timing |           |           |           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|---|----|----------------|-----------|-----------|-----------|
|                                                                                                                                                                                                                                                                                           | A         | Q | AN | Q1<br>Aug      | Q2<br>Nov | Q3<br>Mar | Q4<br>Jun |
| <b>A. General</b>                                                                                                                                                                                                                                                                         |           |   |    |                |           |           |           |
| 1. Review and update F&A Committee Audit Charter                                                                                                                                                                                                                                          | X         |   |    |                | X         |           |           |
| 2. Approve and maintain minutes of previous meeting                                                                                                                                                                                                                                       |           | X |    | X              | X         | X         | X         |
| 3. Authorize audits within the Committee's scope of responsibilities                                                                                                                                                                                                                      |           |   | X  |                |           |           |           |
| 4. Report Committee actions to the Board of Visitors with recommendations deemed appropriate                                                                                                                                                                                              |           | X |    | X              | X         | X         | X         |
| 5. Meet in closed session with Director of Internal Audit, and with external auditors, as needed                                                                                                                                                                                          |           | X |    | X              | X         | X         | X         |
| <b>B. Internal Controls/Risk Assessment/Fin Reporting</b>                                                                                                                                                                                                                                 |           |   |    |                |           |           |           |
| 1. Consider the effectiveness of the university's internal control systems                                                                                                                                                                                                                |           |   | X  |                |           |           |           |
| 2. Review the university's processes for assessing significant business risk exposures and the steps taken to monitor and control such exposures                                                                                                                                          |           |   | X  |                |           |           |           |
| 3. Understand the scope of internal and external audit reviews of internal control, and obtain reports on significant potential issues and recommendations, together with management's responses                                                                                          |           | X |    | X              | X         | X         | X         |
| 4. Review the annual financial statements with management and external auditors to determine whether the external auditors are satisfied with the disclosure and content of the financial statements, including the nature and extent of any significant changes in accounting principles | X         |   |    |                | X         |           |           |
| 5. Review management's written responses to significant potential issues and recommendations of the auditors, including the timetable to correct identified weaknesses in the internal control system                                                                                     |           | X |    | X              | X         | X         | X         |
| 6. Advise management that they are expected to provide a timely analysis of significant current financial reporting issues and practices                                                                                                                                                  | X         |   |    |                | X         |           |           |

| A=Annually; Q=Quarterly; AN=As Necessary                                                                                                                                                           | Frequency |   |    | Planned Timing |     |     |     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|---|----|----------------|-----|-----|-----|
| Q1, Q2, Q3, Q4 based on Fiscal Year (July – June)                                                                                                                                                  | A         | Q | AN | Q1             | Q2  | Q3  | Q4  |
|                                                                                                                                                                                                    |           |   |    | Aug            | Nov | Mar | Jun |
| <b>C. External Auditors</b>                                                                                                                                                                        |           |   |    |                |     |     |     |
| 1. Make inquiries of management and the independent auditors regarding the scope of the external audit for the current year                                                                        | X         |   |    |                |     |     | X   |
| 2. Discuss with the external auditors their processes for identifying and responding to key audit and internal control risks                                                                       |           |   | X  |                | X   | X   |     |
| 3. Review the coordination of internal and external audit procedures to promote an effective use of resources and ensure complete and efficient coverage of the university's risks                 |           |   | X  | X              |     | X   |     |
| 4. Meet with the external auditors at the completion of the audit to receive and discuss the audit report(s)                                                                                       | X         |   |    |                | X   |     |     |
| <b>D. Internal Auditors</b>                                                                                                                                                                        |           |   |    |                |     |     |     |
| 1. Review and approve Internal Audit charter, if changes are needed                                                                                                                                | X         |   |    |                | X   |     |     |
| 2. Review the draft annual audit plan                                                                                                                                                              | X         |   |    |                |     |     | X   |
| 3. Approve the annual audit plan                                                                                                                                                                   | X         |   |    | X              |     |     |     |
| 4. Review the effectiveness of the internal audit function, including staffing resources, financial budget, training, objectivity, and reporting relationships                                     | X         |   |    | X              |     |     |     |
| 5. Review completed audit reports and progress reports on executing the approved annual audit plan                                                                                                 |           | X |    | X              | X   | X   | X   |
| 6. Inquire of the Director of Internal Audit regarding any difficulties encountered in the course of the audits, including any restrictions on the scope of work or access to required information |           | X |    | X              | X   | X   | X   |
| 7. Review and concur in the appointment, replacement, reassignment, or dismissal of the Director of Internal Audit                                                                                 |           |   | X  |                |     |     |     |
| 8. Evaluate the Director of Internal Audit's annual performance and make decisions regarding compensation                                                                                          | X         |   |    | X              |     |     |     |
| <b>E. Compliance, Ethics, and Business Conduct</b>                                                                                                                                                 |           |   |    |                |     |     |     |
| 1. Require management to periodically report on procedures that provide assurance that the university's mission, values, and codes of conduct are properly communicated to all employees           |           |   | X  |                |     |     |     |
| 2. Review the programs and policies of the university designed to assure and monitor compliance                                                                                                    |           |   | X  |                |     |     |     |
| 3. Monitor the university's conflict of interest policies and related procedures                                                                                                                   |           | X |    | X              | X   | X   | X   |