

County of Orange Audit Oversight Committee Charter

1.0 Introduction

The Audit Oversight Committee (AOC) is an essential component of the County's governance structure. The AOC was established by Board of Supervisors Resolution No. 95-271, dated April 25, 1995. 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 June 26, 2012.

2.0 Purpose

The AOC is an advisory committee to the Board of Supervisors on issues related to the County's internal audit function and the County's external audit coverage including the financial statements (e.g. CAFR, Single Audit Report and Management Letter) and federal and state audits. The Committee assists the Board in ensuring the independence of the Internal Audit function, reviews and recommends approval of the Internal Audit Department's Annual Audit Plan, reviews internal audit reports, and ensures that corrective action is taken on audit findings.

3.0 Membership

Membership is specified in the Bylaws of the Orange County Audit Oversight Committee as approved by the Board of Supervisors on June 26, 2012.

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 Chairman is required to call a meeting if requested to do so by the Board of Supervisors or another AOC member.

4.3 The quorum for a meeting shall be a majority of the voting members, and decisions made by a majority vote of the voting members present shall be regarded as acts of the AOC.

4.4 All AOC 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 signed proxy submitted to the Chairman at the start of the AOC meeting.

4.5 The Director of Internal Audit or his designee shall attend all meetings of the AOC. The Chairman may request the attendance of other County officials.

4.6 The Chairman may, as necessary, ask senior representatives of the Office of the Performance Audit Director 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 AOC approval as the first item on the subsequent meeting agenda. Whenever possible, such minutes will be distributed to AOC members and made available to the public in draft form within a reasonable time after the meeting and in advance of the subsequent meeting.

County of Orange Audit Oversight Committee Charter

- a. Minutes of each meeting 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 during a Committee meeting, such minutes will be sent to the AOC members once approved by the AOC.
- 4.8 Reports and other documents distributed in conjunction with the AOC agenda shall be distributed in accordance with the Ralph M. Brown Act in advance of the meeting to allow for their review.
- 4.9 The AOC's meeting schedule will normally be tentatively set out one year in advance and finalized each quarter so that County management and internal auditors can prepare the information and reports required to support the AOC's work.
- 5.0 Operations**
- 5.1 The AOC's Charter shall be submitted to the Board of Supervisors for approval. The AOC Charter 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 Members shall be briefed on the AOC's purpose, responsibilities, objectives, and on the business of the County upon joining the AOC by the Director of Internal Audit. A process of continuing education (e.g., briefings and information on emerging issues and risks) shall be provided at the AOC meetings as deemed appropriate by the AOC Chairman.
- 5.3 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.
- 5.4 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 (IAD) budget to be administered by the Director of Internal Audit.
- 5.5 The AOC shall receive its staff support from 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. the performance of other incidental duties as may be assigned.
- 6.0 Responsibilities and Duties**
- 6.1 *Compliance Statement:* Bi-annually, the County Executive Officer will provide the AOC with a signed Compliance Statement pledging that County agencies/departments will cooperate with internal/external auditors and will comply with all laws, regulations, policies, and standards of ethical conduct during the audits.

County of Orange Audit Oversight Committee Charter

6.2 *Financial Statements and Reporting*: The AOC shall provide oversight of the County's independent external auditor and shall:

- a. ensure the selection of the County's independent external auditor to perform the Consolidated Annual Financial Report, including all component units and the single audit of the federal funds;
- b. approve all non-audit work conducted by the independent external auditors;
- c. review the independent external auditor's scope and plan;
- d. ensure that the independent external auditor's work plan does not duplicate work efforts of the Internal Audit Department;
- e. review the draft results of the independent external auditor's analysis of the County's financial statements;
- f. discuss any significant adjustments to the statements required as encountered in the course of the audit;
- g. discuss, as needed, with County Counsel, the independent external auditor, 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;
- h. review management letters arising from the independent external audit of the County's financial statements and management's responses thereto;
- i. review with the independent external auditor the latter's judgments about the quality, not just the acceptability, of the County's accounting principles as applied in its financial reporting;
- j. review the independent external auditor's single audit of the federal awards administered by the County and its reports thereon;
- k. review any significant changes required in the independent external auditor's audit plan;
- l. review all matters required to be discussed by accounting standards;
- m. review with management and the independent external auditor the effect of any regulatory and accounting initiatives, such as related organizations financing structures, derivatives, or securities lending;
- n. review any serious difficulties or disputes with management encountered during either an internal audit or by the independent external auditor;
- o. review all critical accounting policies and practices used by the County brought to the AOC's attention by the independent external auditor; and
- p. review all alternative treatments of financial information brought to the AOC's attention by the independent external auditor within generally accepted accounting principles that have been discussed with County management and the ramifications of each alternative and the treatment preferred by the County.

6.3 *Oversight of Internal Audit Department (IAD)*: The AOC shall:

- a. review every three years , the County's IAD charter and recommend revisions with all revisions submitted to the Board of Supervisors for its review and approval;
- b. review regularly and annually discuss 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 and any subsequent revisions;

County of Orange Audit Oversight Committee Charter

- d. review significant findings during the year and management's responses thereto;
- e. discuss with the Director of Internal Audit any significant difficulties encountered in the course of IAD audits, including any restrictions on the scope of their work or access to required information;
- f. review and discuss, as necessary, critical impact findings and recommendations contained in audit reports and management action plans to address recommendations; and
- g. ensure IAD establishes and audits agencies/department's compliance with a comprehensive framework of internal controls..

6.4 *Follow-up Audits:* 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 assist in resolving differing opinions between management and independent external or internal auditors arising from the audit process ;
- c. review and 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.

6.5 *Peer Review/Quality Control of IAD:* The AOC shall:

Ensure that an external quality control review (Peer Review) of the Internal Audit Department be conducted as required 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.

6.6 *Comprehensive Framework of Internal Control:* The AOC will discuss with the Auditor-Controller and CEO the adequacy of the County's internal control structure.. 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 identified by County management and the steps management has taken or proposes to take to minimize such risks;
- c. findings of the independent external and internal auditors;
- d. audit adjustments;
- e. code of conduct;
- f. Fraud Hotline complaints; and
- g. pending accounting and regulatory changes.

6.7 *Oversight of Fraud Hotline:* The AOC shall ensure that the Internal Audit Department has established procedures for the receipt, retention, investigation 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.

County of Orange
Audit Oversight Committee Charter

References:

August 9, 2012, Audit Oversight Committee

Approved December 14, 2010, Board of Supervisors

Revised November 16, 2010, Audit Oversight Committee