

**NORTH DAKOTA STATE BOARD OF HIGHER EDUCATION
POLICY MANUAL**

SUBJECT: GOVERNANCE AND ORGANIZATION **EFFECTIVE:** June 17, 2016

Section: 302.2 Audit Committee

1. PURPOSE

~~To assist the State Board of Higher Education (Board) in fulfilling~~The SBHE shall establish an audit committee to fulfill its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the ~~NDUS~~North Dakota University System's (NDUS) process for monitoring compliance with laws, policies, regulations and the code of conduct.

2.1 AUTHORITY

The ~~audit committee~~ Audit Committee (Committee) has authority to conduct or authorize investigations into any matters within its scope of responsibility, ~~including. It is empowered to:~~

- a. Appoint, compensate, and oversee the work of any registered public accounting firm employed by the organization;:-
- b. Resolve any disagreements between management and the auditor regarding financial reporting;:-
- c. Pre-approve all auditing and non-audit services;:-
- d. Retain independent counsel and request appointment of legal counsel by the attorney general as a special assistant attorney general, accountants, or others to advise the audit committee or assist in the conduct of an investigation;:-
- e. Seek any information it requires from employees, ~~(all of~~ whom are directed to cooperate with the committee's requests, ~~)~~ or external parties; and-
- f. Meet with officers, external auditors, or outside counsel, as necessary.

2. Non-compliance with any of the following, within a timely manner, will result in the aAudit cCommittee recommending to the SBHE~~Board~~ that the respective institution pay for the services of an audit by an external, independent firm, ~~(selected by the a~~Audit cCommittee, the chief audit executive~~Director of Audit Services~~ and the cCompliance officer), or increase the amount that is assessed by the NDUS~~o~~ to the institution for audit and compliance functions:

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- a. Any requests or requirements of any NDUS internal audit staff;:-
 - b. Any requests or requirements of the sState aAuditor's office; or
 - c. ~~-~~Documented implementation plans;:-

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3. COMPOSITION

3. The committee ~~shall~~ will consist of three voting members of the SBHE and the Chancellor shall serve, ex officio, as a non-voting member of the committee ~~Board~~. Each committee member shall be both independent and financially literate. The ~~SBHE Board~~ president will appoint committee members as well as ~~and~~ the committee chair by June 30th of each year to serve one-year terms starting July 1st. The SBHE president ~~and~~ may also appoint additional members to serve, ex officio, ~~SBHE faculty and staff advisors~~, as ~~ex officio~~ non-voting members of the committee. ~~If a vacancy on the committee occurs before June 30th, the SBHE president shall appoint a voting member of the SBHE to fill the vacancy no later than the next regular meeting of the SBHE after the vacancy occurs. Each committee member will be both independent and financially literate.~~

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4. MEETINGS

4. The committee ~~will meet at least four times a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting, in person or via teleconference or video conference. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It may hold executive sessions in compliance with law. In compliance with law, meeting agendas will be prepared, and provided in advance to members, along with appropriate briefing materials. In compliance with law, minutes will be prepared.~~ shall set a meeting schedule for the year at the committee's first meeting after July 1st. Meetings shall comply with all applicable laws, including the necessary posting of notice, the preparation of agendas in advance of meetings, and the recording of minutes for each meeting.

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5. RESPONSIBILITIES

5. The committee will carry out the following responsibilities:

- a. Financial ~~s~~Statements:
 - i. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
 - ii. Review with management and the external auditors the results of ~~an~~the audit, including any difficulties encountered.
 - iii. Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.

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- iv. Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- v. Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing standards.
- vi. Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- vii. Review interim financial reports with management and the external auditors and consider whether they are complete and consistent with the information known to committee members.

b. Internal Control:

- i. Consider the effectiveness of the NDUS university system's internal control system, including information technology security and control.
- ii. Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

c. Organization:

- i. The NDUS chief audit executive ~~Director of Audit Services~~ (executive Director), and the compliance officer (officer), report functionally to the committee and administratively to the NDUS Chief of Staff or equivalent.
- ii. The committee will ensure that there are no unjustified restrictions or limitations and review and concur in the appointment, replacement or dismissal of the executive Director or the officer.
- iii. Obtain regular updates from the executive Director and the officer, management, the SBHE Board and the Attorney General regarding relevant matters.
- iv. Review with the executive Director or the officer the internal audit or compliance; budget, resource plans, activities and organizational structure.
- v. At least once per year, review the performance of the executive Director and the officer and recommend the annual compensation and salary adjustment.

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d. Internal Audit:

- i. Approve an internal audit charter.
- ii. Approve the annual audit plan and all major changes to the plan. Review the internal audit activity's performance relative to its plan.
- iii.

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- iii. Review the effectiveness of the internal audit function, including conformance with the following publications of the institute of internal auditors: The Institute of Internal Auditors' the dDefinition of iInternal aAuditing, cCode of eEthics, and the iInternational sStandards for pProfessional pPractice of iInternal aAuditing.
- e. External aAudit:
- i. Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
 - ii. Review the performance of the external auditors.
 - iii. MOn an 'as needed' basis, meet with the external auditors to discuss relevant matters, as needed.
- f. Compliance:
- i. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of the officer's or management's investigation and follow-up (including disciplinary action) of any instances of noncompliance, including review of disciplinary action.
 - ii. Review the findings of any examinations by the officer, regulatory agencies, and any auditor observations.
 - iii. Review the process for communicating the code of conduct to SBHEBoard members and NDUuniversity system personnel, and for monitoring compliance therewith.
- g. Reporting rResponsibilities:
- ~~g.~~
 - i. Regularly report to the SBHE Board about committee activities, issues, and related recommendations.
 - ii. Provide an open avenue of communication between internal audit, the external auditors, and the SBHEBoard.
 - iii. Review any other reports the company issues that relate to committee responsibilities.
- h. Other rResponsibilities:
- i. Perform other activities related to this policy as requested by the SBHEBoard.
 - ii. Institute and oversee special investigations as needed.

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- iii. Review and assess the adequacy of the committee policy annually, requesting ~~SBHE Board~~ approval for proposed changes, and ensure appropriate disclosure as may be required by law, policy or regulation.
- iv. Confirm annually that all responsibilities outlined in this policy have been carried out.
- v. Evaluate the committee's and individual members' performance on a regular basis.

HISTORY: ~~—~~ New Policy, SBHE ~~m~~Minutes, February 27, 2014; ~~—~~
~~—~~ Amended, ~~—~~ SBHE ~~m~~Minutes, June 17, 2016.