

# How To Form An Audit Committee

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# Background

- The Local Government Modernization Act of 2005 encourages counties to form an audit committee.
- The Local Government Modernization Act of 2005 is codified in TCA §9-3-405.

# Background Cont.

- The comptroller of the treasury may require the formation of an audit committee if:
  - a local government is not in compliance with Government Accounting and Standards Board (GASB) standards by June 30, 2008,
  - or has recurring findings of material weakness in internal control for **three or more consecutive years.**

# Background Cont.

- **ThreeStar Program Adjustments as of March 12, 2013 for the ThreeStar Grant Applicant/Grantee**
- The TN Department of Economic and Community Development will follow an audit committee process (after consultation with the TN Comptrollers Office) for the ThreeStar Grant Applicants/Grantee

# Purpose of the Audit Committee

- The audit committee is established to provide independent review and oversight of:
  - the government's financial reporting processes,
  - the government's internal controls,
  - a review of the external auditor's report and following up on corrective action,
  - and compliance with laws, regulations, and ethics.

# The Audit Committee

- Establishment
  - ThreeStar applicant requirement
- Membership
  - ThreeStar applicant requirement
- Duties
- Meetings
  - ThreeStar applicant requirement
- Sample Resolution
- Sample Checklist

# Audit Committee Establishment

- This committee is created by the county legislative body (established by resolution or charter), which selects the members.
- **ThreeStar Applicant/Grantee**
  - ECD will follow this process for participation in the ThreeStar program:
    - The county must establish an audit committee before December 1, 2013.



# Membership

- The members of this committee must be:
  - external to the management and;
  - may be members of the county legislative body, citizens or a combination of both.
- Since the statute does not specify the number of members on this committee this is determined by the county legislative body.

# Membership Cont.

- **ThreeStar Applicant/Grantee**

- ECD will follow this process for participation in the ThreeStar program:
  - The audit committee must consist of no fewer than three members to be comprised of members of the County Commission, citizens of the county, or a combination of both. A county internal auditor may not serve in place of the audit committee.
  - A county budget committee may not serve in place of the audit committee.
  - A county internal auditor may not serve in place of the audit committee.

# Duties

- The duties of this committee are to be established in a resolution approved first by the comptroller and then by the county legislative body.
- The audit committee responsibilities include, at a minimum, financial and other reporting practices, internal control, compliance with laws and regulations and ethics. T.C.A. § 9- 3-405.
- **Note: The audit committee does not have investigative powers or authority over other officials.**

# Duties – Cont.

- **Effective April 1, 2013** - Public Chapter 64; SB 2641, HB 2658 amends TCA § 9-3-406 to require audit committees to establish a process for employees, taxpayers, and citizens to report suspected fraudulent, illegal, wasteful, or improper activity confidentially to the audit committee.
- If the chair believes the activity may have occurred, the chair is required to report it to the comptroller.
- The detailed information received and generated pursuant to a report of suspected activity is not an open record.

# Meetings

- All meetings of an audit committee created pursuant to this chapter shall be subject to the open meetings provisions of title 8, chapter 44, except, upon a majority vote of those members in attendance for the public portion of the meeting, the audit committee may hold confidential, nonpublic executive sessions to discuss the following items:

# Meetings Cont.

- **(1)** Items deemed not subject to public inspection under §§ 10-7-503 and 10-7-504, and all other matters designated as confidential or privileged under this code;
- **(2)** Current or pending litigation and pending legal controversies;
- **(3)** Pending or ongoing audits or audit related investigations;
- **(4)** Information protected by federal law; and
- **(5)** Matters involving information under § 9-3-406 where the informant has requested anonymity.

# Meetings Cont.

- **ThreeStar Applicant/Grantee**

- ECD will follow this process for participation in the ThreeStar program:

- The audit committee must meet at least once annually beginning January 1, 2014.
    - The first meeting may take place between July 1 and December 1, 2014, so that the audit committee can hear and act upon the report of the auditor with respect to the comprehensive annual financial report (CAFR) or financial report. (For example the audit committee must be established in the calendar year 2013 but the first meeting may not occur until FY 15 [July 1, 2014 and December 31, 2014] after the FY 13 CAFR or financial report is completed.)

# Sample Resolution , Sample Checklist, & Other Info