407. Auditing Operations

I. Introduction

This Rule provides a mechanism whereby the Board, through its Audit Committee (the "Committee"), may exercise oversight of the internal and external audit functions of The University of Alabama System (System), including all campuses. This Rule describes the purpose, authority, composition, operations, and responsibilities of the Committee.

II. Committee Purpose

The purpose of the Audit Committee is to assist the Board of Trustees in fulfilling its oversight responsibilities for financial and operational reporting, risk management, internal control, internal audit and compliance with laws, regulations and the codes of conduct.

III. Committee Authority

The Committee has the authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

A. Recommend, in conjunction with the Chancellor, to the Board the appointment, removal or replacement of the chief audit executive (General Auditor),

B. Recommend the appointment of an independent nationally recognized accounting firm for external financial and other required audits,

C. Resolve disagreements between management and internal or external auditors,

D. Pre-approve all audit and non-audit services provided by the external auditor,

E. Retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation, and

F. Meet with company officers, internal auditors, external auditors, outside counsel, or other employees, as necessary.

IV. Committee Composition

The Committee will consist of at least three members of The Board of Trustees. At least one member of the Committee will have financial expertise based on knowledge gained through education and/or experience.
V. **Committee Operations (Meetings)**

The Committee will meet at the call of the Chair of the Audit Committee. All Committee members are expected to attend each meeting. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

The Committee will invite members of management, internal and external auditors, or others to attend meetings and provide pertinent information as necessary. The Committee will hold executive sessions with internal and external auditors as appropriate.

VI. **Committee Responsibilities**

A. **Internal Audit**

The Audit Committee will carry out the following responsibilities:

1. Review with management and the General Auditor the charter, policies, standards, plans, activities, staffing, and organizational structure of the Internal Audit activity,

2. Review the effectiveness of the Internal Audit activity, and

3. Recommend for adoption by the Board the policies and standards by which the internal audit functions of the System will be governed.

B. **External Audit**

The Audit Committee, with the General Auditor serving as liaison between the System and the external auditor, will carry out the following responsibilities:

1. Review the external auditors' proposed audit scope and approach,

2. Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the System, including non-audit services and compensation practices, and discussing the relationships with the auditors,

   a. The external auditing firm is authorized to perform audit and audit related services to the System. “Audit related” is
deemed to be federal audit support, internal control reviews and investigations, implementation of new accounting standards, review of income and other tax matters, internal financial reviews, due diligence procedures related to public debt offerings, and other transactions and audits of affiliated entities or special purpose audits.

b. The external audit firm should not provide the following services: bookkeeping, financial information systems design and implementation, appraisal or valuation services, actuarial services, internal audits, management and human resource services, broker/dealer and investment banking services, and legal services.

3. Review the managing partner rotation (rotation is required every seven years, with a two-year timeout),

4. Review the performance of the external auditors and recommend to the Board the appointment, compensation, and discharge of the auditors,

5. Receive and execute the audit engagement letter from the external auditor,

6. Review with management and the external auditors the results of the audit and ensure that appropriate actions are taken, and

7. Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing standards including recent developments and reporting practices.

C. State and Federal Audits

The Audit Committee will carry out the following responsibilities:

1. Review the report and findings of the State Examiners of Public Accounts,

2. Maintain an awareness of significant federal audit findings through the General Auditor,
3. Attend exit conferences with the General Auditor, as necessary, and
4. Ensure that appropriate actions are taken as a result of 1-3 above.