

University of Illinois
Audit, Budget, Finance and Facilities Committee
Audit Function Charter

Introduction

The University of Illinois Board of Trustees (Board), officers, faculty, and staff serve the people of Illinois with a shared commitment to missions of excellence in teaching, research public service and economic development. The University's dedication to achieving success in these areas rests upon a collective commitment to fiscal integrity and regulatory compliance.

The Board of Trustees' Audit, Budget, Finance and Facilities Committee (ABFFC) is primarily charged with the establishment of policy and oversight functions in this area. To ensure regulatory compliance and effective stewardship of the University's mission, the University is subject to numerous auditing activities. The audit functions of the University of Illinois are undertaken through the University's own internal operations and by outside State entities in accordance with several State statutory directives, including duties performed by the Legislative Audit Commission (LAC) and the Illinois Office of the Auditor General (OAG).

The Office of University Audits (Office) strives to protect and improve the University and its related organizations through independent, objective assurance and consulting services that evaluate the effectiveness of risk management, internal control, and governance processes. The Office reports functionally to the President and to the ABFFC and administratively to the Vice President and Chief Financial Officer. The Office assists all levels of administration in the achievement of University goals and objectives by striving to provide a positive impact on the efficiency and effectiveness of administrative functions.

The Auditor General is a constitutional officer of the State of Illinois charged with reviewing the obligation, expenditure, receipt, and use of public funds. As such, the OAG is responsible for performing financial and State and Federal regulatory compliance audits of the University of Illinois and all other public universities and agencies in the State. The Auditor General reports audit findings and recommendations directly to the General Assembly and Governor, as well as to the University. The OAG selects a public accounting firm to perform the University's audits and is responsible for oversight of the firm's work. OAG policy prohibits public accounting firms contracted to perform the University's audits from performing non-audit services for the University. It is OAG policy to solicit proposals from public accounting firms every six years.

The Legislative Audit Commission is responsible for the oversight of the State Audit Program, review of the stewardship of public funds, and the monitoring action to correct weaknesses disclosed by the audits of state agencies. The membership consists of 12 legislators appointed by the General Assembly leadership and is equally apportioned between the two houses and political parties. The LAC is mandated by law to review all audits conducted by the State Auditor General. The President of the University is generally requested to appear annually before the LAC to review and discuss the University's audit results.

It is within the context of these varying entities and duties that the Board of Trustees of the University of Illinois defines its commitment and role with regard to regulatory compliance functions and stewardship of the University's financial operations.

I. Audit Function Purpose

The Audit, Budget, Finance and Facilities Committee (ABFFC) is established by the Board of Trustees (Board) to assist the Board in fulfilling its oversight responsibilities for:

- The integrity of the University's financial statements.
- The performance of the University's internal audit function.
- The University's compliance with legal requirements.

The ABFFC will primarily fulfill its Audit Function purpose by carrying out the activities enumerated in Section V of this Charter.

II. Committee Authority

The ABFFC has the authority to:

- Conduct or authorize investigations into any matters within its scope of responsibility.
- Meet with University officers, external auditors, or outside advisors, as necessary.
- Adjourn to closed session when appropriate under the Illinois Open Meetings Act.

III. Committee Composition

As provided in the Board's Bylaws, appointed Board of Trustees members and the Treasurer of the Board *ex officio* are members of the ABFFC. Selection of the Committee Chair shall occur as specified in the Bylaws. At least one member of the ABFFC shall possess an understanding of financial expertise defined as:

- An understanding of generally accepted accounting principles and financial statements.
- The ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves.
- Experience in preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the issues that can reasonably be expected to be raised by the University's financial statements (or experience actively supervising one or more persons engaged in such activities).
- An understanding of internal controls and procedures for financial reporting.
- An understanding of audit committee functions.

IV. Committee Meetings

Accomplishing the Audit Function mission of the ABFFC will require a variety of meetings throughout the year. The Chairman of the ABFFC, the Treasurer, and the Executive Director of University Audits will meet at least quarterly. The ABFFC will meet at least four times a year, with authority to convene additional meetings as circumstances require. Notice and conduct of the ABFFC meetings will be in accordance with the Illinois Open Meetings Act. The ABFFC will invite members of management, auditors, or others to attend meetings and provide pertinent information, as necessary. It will periodically meet separately with management, internal auditors, and external auditors.

V. Committee Responsibilities

The ABFFC will carry out the following Audit Function activities with assistance from University staff and external auditors:

A. Financial Statements

1. Review annually significant accounting and reporting issues and understand their impact on the financial statements. These issues include:
 - Complex or unusual transactions and highly judgmental areas.
 - Major issues regarding accounting principles, management's estimates and judgments, and financial statement presentations, including any significant changes in the University's selection or application of accounting principles.
 - The effect of accounting initiatives as well as off-balance sheet structures on the financial statements of the University.
2. Review annually with management and the external auditors the results of the audit, including any difficulties encountered. This review will include any restrictions on the scope of the independent auditors' activities or on access to requested information and any significant disagreements with management.
3. Discuss the annual audited financial statements with management and the external auditors.
4. Report all pertinent activities and findings of the ABFFC to the Board of Trustees.

B. Internal Control

1. In consultation with the external auditors and the internal auditors, review the integrity of the University's financial reporting processes and the internal control structure.
2. Understand the scope of internal and external auditors' reviews of internal control over financial reporting and the internal control structure and obtain reports on significant findings and recommendations.

C. Internal Audit

1. Review quarterly with management and the Executive Director of University Audits the annual and two-year audit plans, activities, and staffing of the internal audit function.

2. Review annually with management and the Executive Director of University Audits the internal audit charter and the organizational structure of the internal audit function.
3. In the context of a particular audit, review quarterly with the Executive Director of University Audits any significant difficulties or disagreements with management, scope restrictions, or limitations.
4. In the context of a particular audit, review quarterly significant findings and recommendations, as well as the adequacy of management's corrective actions.
5. Ensure that there are no unjustified restrictions or limitations upon the work of the Executive Director of University Audits and review and concur in the appointment, replacement, or dismissal of the person serving in that position.
6. Where appropriate in accordance with the Illinois Open Meetings Act, meet in closed session with the Executive Director of University Audits to discuss particular matters.

D. External Audit

1. Review annually the external auditors' proposed audit scope and approach, including any coordination of audit effort with internal audit.
2. Where appropriate and in accordance with the Illinois Open Meetings Act, meet in closed session with the external auditors to discuss particular matters.

E. Other Responsibilities

1. Review any other reports the University issues that relate to ABFFC responsibilities.
2. Discuss with management the University's major policies with respect to risk assessment and risk management.
3. Periodically, perform a self-assessment relative to the ABFFC's purpose, duties, and responsibilities and assess the adequacy of this ABFFC Audit Function Charter, requesting Board approval for proposed changes.
4. Where appropriate and in accordance with the Illinois Open Meetings Act, meet in closed session with the University's legal counsel to discuss particular legal matters.