

**THE UNIVERSITY OF TENNESSEE  
BOARD OF TRUSTEES  
AUDIT COMMITTEE CHARTER**

**PURPOSE**

The audit committee of the Board of Trustees will assist the Board in fulfilling its oversight responsibilities for the following activities.

The integrity of the university's annual financial statements.  
The university's compliance with legal and regulatory requirements.  
Oversight and direction of the internal auditing function, any external auditors whom the committee may employ, and engagements with the state auditors.  
Oversight of the university's internal control structure and management practices.  
Knowledge of audit activities, informing the full Board and making recommendations when necessary, and other duties as directed by the Board.  
Monitoring of compliance with university policies and procedures.

**AUTHORITY**

The audit committee has authority to conduct or authorize investigations into any matter within its scope of responsibility. The committee is empowered to:

Seek any information it requires from employees – all of whom are directed to cooperate with the committee's requests – or external parties.  
Meet with university officials, external and internal auditors, general counsel, or others as necessary.  
Delegate authority to subcommittees, provided that such decisions are presented to the full committee at its next scheduled meeting.  
Oversee the internal auditing function of the university, which will report directly to the audit committee.

**MEMBERSHIP**

The audit committee shall be composed of no less than three members who shall be appointed by the Board of Trustees. The Board shall appoint the committee chairman. The committee may be composed of one external member and two or more members of the Board of Trustees. The vice chair of the Board shall serve as an ex officio member, but shall not be counted for quorum purposes. A majority of voting members shall constitute a quorum. The president shall not serve as a member, but shall attend meetings if requested by the chair. The external member must have extensive accounting, auditing, or financial management expertise and may not serve as chairman. The term of appointment is two years, and the chairman may not serve more than two consecutive two-year terms as chair. Also, there shall be no overlapping of membership of the audit

committee and the finance and administration committee. All members shall be financially literate, meaning they shall be able to read and understand financial statements, including a balance sheet, income statement, and cash flow statement. At all times, the committee must have at least one member with extensive accounting, auditing, or financial management expertise. Each member shall be free of any relationship that would interfere with his or her exercise of independent judgment or give the appearance of a conflict of interests.

## **EDUCATION**

The university's senior management and internal audit department are responsible for providing the committee with educational resources related to accounting principles, internal controls, applicable policies, and other information that may be requested by the committee to maintain appropriate financial and compliance literacy.

## **MEETINGS**

The committee shall meet at least three times a year or more frequently, as circumstances require. The chairman or any two committee members may call a meeting. The committee will invite members of management, auditors, or others to attend and provide pertinent information. Members may also meet individually with management and internal and external auditors. Meeting agendas will be provided to members in advance, along with appropriate briefing materials. Minutes will be prepared.

## **RESPONSIBILITIES**

### **Financial Statements**

Review with the state auditors the scope and results of their examination of the university's annual financial statements and any other matters related to the conduct of the audit, which should be communicated to the committee.

Review with management and general counsel any legal matters (including pending litigation) that may have a material impact on the university's financial statements and any material reports or inquiries from regulatory or governmental agencies.

Resolve any differences between management and the state auditors regarding financial reporting.

### **Internal Control**

Consider the effectiveness of the university's internal control system, including information technology security and control.

Understand the scope of internal and external auditors' review of internal controls over financial reporting.

Review management's risk assessment and the university code of conduct.

Ensure that procedures exist for the receipt, retention, and treatment of complaints regarding fraud, waste, and abuse.

Ensure that the code of conduct is easy to access, widely communicated, easy to understand, includes a confidential reporting mechanism, and is enforced.

Ensure that the university's conflict of interests policy is comprehensive, requires an annual signoff, clearly defines the term "conflict of interests," and contains procedures for adequately resolving and documenting potential conflicts.

Review the university's process for monitoring compliance with laws and regulations.

### **Internal Audit**

Ensure that the internal audit department has direct and unrestricted access to the chairman and other committee members.

Review the audit director's administrative reporting relationship to assure not only that independence is fostered, but adequate resources in terms of staff and budget are provided to enable the department to perform its responsibilities effectively.

Review and approve the appointment, reassignment, or dismissal of the audit director.

Review and approve the charter for Internal Audit.

Review the annual audit plan and results of the year's work with the director of Internal Audit. Changes to the plan, including management requests for unplanned assignments, should also be reviewed.

Receive and review reports and other work prepared by Internal Audit.

### **External Auditors**

Participate in an entrance conference with the external auditors.

Present the external auditors' conclusions to the full Board.

Meet regularly with the external auditors to discuss any matters that the committee or auditors deem appropriate.

## **Communications and Reporting**

Provide an open avenue of communications among the state auditors, Internal Audit, senior management, and the Board.

Report regularly to the Board about committee activities and issues that arise with such recommendations, as the committee deems appropriate.

Review and assess the adequacy of the committee's charter annually, requesting Board approval for proposed changes.