

Management Committee

Meeting date: September 11, 2019

For the Metropolitan Council meeting of September 25, 2019

Subject: Audit Committee Charter

District(s), Member(s): All

Policy/Legal Reference: Metropolitan Council Bylaws Article III, Section D; Internal Audit Policy 3-5

Staff Prepared/Presented: Matthew LaTour, Director

Division/Department: Program Evaluation and Audit

Proposed Action

That the Metropolitan Council approve Audit Committee Charter.

Background

The Metropolitan Council Audit Committee plays an important role in providing oversight of the organization's governance. This oversight mechanism also serves to provide confidence in the integrity of these practices. The Committee performs its role by providing independent advisory and assurance services to the Council.

The draft presented here has been provided for review to the Audit Committee members and a group of internal stakeholders including the Chair, the Regional Administrator and General Counsel.

Rationale

The Audit Charter hasn't been substantially updated in more than 10 years. Industry best practices—which are incorporated into this draft—from the Institute of International Auditors have been updated several times over that period, most recently in 2015. The revised draft splits the Audit Charter into two, one for that Audit Committee that is approved by the Council, and one for the Audit Department that is approved by the Audit Committee. The Audit Committee Charter is based on an IIA template to include industry best practice authority, procedures, and values. In addition, additional modifications were made to update the charter to align with the current composition, practice and procedures for the Council's Audit Committee.

Thrive Lens Analysis

The Audit Committee has Council-wide oversight responsibilities, and thus in a given year will review audit work that could impact all of the Thrive Outcomes and Principles.

Funding

N/A

Known Support / Opposition

The Audit Committee Charter had been reviewed by Audit Committee members and internal Council staff, including the Chair's Office, the Regional Administrator and Office of General Counsel.

METROPOLITAN COUNCIL AUDIT COMMITTEE CHARTER

Introduction

The Metropolitan Council Audit Committee plays an important role in providing oversight of the organization's governance, risk management, and internal control practices. This oversight mechanism also serves to provide confidence in the integrity of these practices. The Audit Committee performs its role by providing independent advisory and assurance services to the Council.

Policy

The Metropolitan Council will establish and maintain an independent internal audit program to provide independent, objective assurance and consulting services with the goal of adding value and improving Council operations. The internal audit program will be implemented by a Program Evaluation and Audit Department.

Purpose

The purpose of the Audit Committee is to provide structured systematic oversight of the organization's governance, risk management, and internal control practices. The Audit Committee assists the Council by providing advice and guidance on the adequacy of the organization's initiatives for:

- Governance structure.
- Risk management.
- Values and ethics.
- Internal control framework.
- Oversight of internal and external audit.
- Financial statements and public accountability reporting.

In broad terms, the Audit Committee reviews each of the items noted above and provides the board with independent advice on the adequacy and effectiveness of management's practices. This advice and guidance also may include suggestions and recommendations to strengthen these arrangements.

Mandate

The mandate for the establishment of the Audit Committee was derived from the Bylaws of the Metropolitan Council, Article III, Section D; and the Metropolitan Council's Audit Policy (3-5).



Authority

The authority of the Audit Committee to perform its work is established within the scope of its charter. In discharging its responsibilities, the Audit Committee shall, subject to accountability for confidentiality and safeguarding of records and information and the Minnesota Data Practices Act:

- Have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties.
- Have unrestricted access to records, data, and reports.
- Be entitled to receive explanations from management and staff of the organization that it deems necessary to discharge its responsibilities.

The Audit Committee may engage independent counsel and/or other advisers as it deems necessary to carry out its duties. The Audit Committee is empowered by the Council to approve an Audit Department Charter that will authorize the department to carry out its responsibilities as an internal audit activity in compliance with mandatory elements of The Institute of Internal Auditors' (IIA) International Professional Practices Framework.

Composition of the Audit Committee

The Audit Committee shall consist of eight (8) members, four (4) of whom shall be members of the Metropolitan Council and four (4) of whom shall be external members of the community. The members should collectively possess sufficient knowledge of audit, finance, IT, the law, risk, and control. Further, members shall collectively have a diversity in qualities such as race and national origin, age, gender, and professional experience. Audit Committee members shall be appointed by the Council Chair and approved by the full Council. As the responsibilities of the Audit Committee evolve in response to regulatory, economic, and reporting developments, it is important that members' competencies and the overall balance of skills on the committee be periodically evaluated to respond to emerging needs.

The Chair of the Audit Committee

The Chair shall designate a chair and a vice chair for the Audit Committee.

Terms of Office

The term of office for an Audit Committee member is a term of four (4) years. External members of the committee should not serve more than two terms. To ensure continuity within the Audit Committee, the appointment of members should be staggered.

Operational Principles of the Audit Committee

Audit Committee Values. The Audit Committee will conduct itself in accordance with the Code of Ethics for Metropolitan Council Members.

Communications. The Audit Committee expects that all communication with management and staff of the organization as well as with any external assurance providers will be direct, open, and complete.

Work Plan. The Audit Committee Chair, in coordination with senior management and the Chief Audit Executive (CAE), may establish a work plan to ensure that the responsibilities of the Audit Committee are scheduled and will be carried out.

Meeting Agenda. The Audit Committee Chair shall establish meeting agendas in consultation with Audit Committee members, senior management, and the CAE.

Information Requirements. The Audit Committee shall establish and communicate its information requirements. This shall include the nature, extent, and timing of such information requirements. Information shall be provided to the Audit Committee at least three full business days prior to the meeting.

Executive Sessions. At the discretion of the Audit Committee Chair, the Audit Committee shall hold a private session with the Regional Administrator (RA), the Chief Financial Officer (CFO), the Deputy Chief Financial Officer (DCFO), the CAE, external assurance providers, and with any other officials that the Audit Committee may deem appropriate.

Preparation and Attendance. Audit Committee members have an obligation to prepare for and participate in committee meetings.

Conflict(s) of Interest. It is the responsibility of an Audit Committee member to disclose a conflict of interest or the appearance of a conflict of interest to the Committee. If there is any question as to whether Audit Committee member(s) should recuse themselves from a vote, the committee should vote to determine whether the member should recuse himself or herself.

Orientation and Training. Audit Committee members should receive formal orientation training on the purpose and mandate of the committee and on the organization's objectives. A process of continuing education should be established.

Operational Procedures

Meetings. The Audit Committee shall meet at least three times annually or more frequently as the committee deems necessary.

Rules. Audit Committee meetings shall be regulated by Robert's Rules of Order.

Quorum. The quorum for the Audit Committee shall be a majority of members.

Voting. A motion of the Audit Committee shall be considered passed when a majority of members present vote in the affirmative.

Minutes. Minutes shall be prepared by the Audit Coordinator in accordance with applicable law, regulation, policy or procedure, bylaw, or whatever is applicable.

Access to Officials. The Audit Committee shall have unrestricted access to officials of the organization as may be required to discharge their duties.

Required Attendance. The CAE and the CFO (or DCFO, or designee) are required to attend all Audit Committee meetings.

Secretariat Services. The Audit Coordinator shall facilitate and coordinate meetings as well as provide ancillary support to the Committee, as time and resources permit.

Remuneration of Committee Members. Committee members may be reimbursed for travel and committee-related expenses. Payment rates and allowances for committee members' time or services are established formally in Travel and Meeting Reimbursement Policy (3-3-2). Professional indemnity insurance arrangements are to be established that are suitable to both the member and the organization.

Responsibilities

It is the responsibility of the Audit Committee to provide the Council with independent, objective advice on the adequacy of management's arrangements with respect to the following aspects of the management of the organization:

Values and Ethics. To obtain reasonable assurance with respect to the organization's values and ethics practices, the Audit Committee shall:

- Review and assess the policies, procedures, and practices established by the governing body to monitor conformance with its code of conduct and ethical policies by all managers and staff of the organization.
- Provide oversight of the mechanisms established by management to establish and maintain high ethical standards for all managers and staff of the organization.
- Review and provide advice on the systems and practices established by management to monitor compliance with laws, regulations, policies, and standards of ethical conduct and identify and deal with any legal or ethical violations.

Governance. To obtain reasonable assurance with respect to the organization's governance arrangements, the Audit Committee shall review and provide advice on the governance arrangements established and maintained within the organization and the procedures in place to ensure that they are operating as intended.

Risk Management. To obtain reasonable assurance with respect to the organization's risk management arrangements, the Audit Committee shall:

- Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
- Review and provide advice on the risk management arrangements established and maintained by management and the procedures in place to ensure that they are operating as intended.

Fraud. To obtain reasonable assurance with respect to the organization's procedures for the prevention and detection of fraud, the Audit Committee shall:

- Take an active role in the prevention and deterrence of fraud.
- Challenge management and the auditors to ensure that the entity has appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.
- Ensure that appropriate action is taken against known perpetrators of fraud.

Control. To obtain reasonable assurance with respect to the adequacy and effectiveness of the organization's controls in responding to risks within the organization's governance, operations and information systems, the Audit Committee will:

- Consider the effectiveness of the organization's control framework, including information technology security and control.
- Review and provide advice on the control of the organization as a whole and its individual units.
- Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to senior management and the board.

Compliance. The Audit Committee will:

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the observations and conclusions of internal and external auditors and the findings of any regulatory agencies.
- Review the process for communicating the code of conduct to the organization's personnel and for monitoring compliance.
- Obtain regular updates from management and the organization's legal counsel regarding compliance matters.

Oversight of Internal and External Audit and Other Assurance Providers

Internal Audit. To establish, maintain, and assure that Audit has sufficient authority to fulfill its duties, and to obtain reasonable assurance with respect to the work of the audit activity, the Audit Committee shall:

- Review and approve the Audit Charter at least annually. The charter should be reviewed to ensure that it is consistent with changes in the financial, risk management, and governance arrangements of the organization and reflects developments in internal audit professional practices.
- Review and approve proposed risk-based internal annual audit work plans and make recommendations concerning internal audit projects.
- Consult with the Chair and the Regional Administrator regarding the qualifications and recruitment, retention, release and appropriate compensation of the CAE.
- Provide input to management on the annual performance evaluation of the CAE.
- Review Audit's budget, expertise, and staffing levels.
- Advise the Council about increases and decreases to the requested budget for the internal audit program and any additional expertise needed. Consider whether additional expertise is in the form of permanent staff or contracting for outside consulting services.
- Review internal audit reports and other communications to management.
- Review and advise management on the results of any special investigations. Inquire of the CAE whether any evidence of fraud has been identified during internal audits and further action to be taken.

- Review and accept results from external assurance providers including federal oversight reviews, audits, desk reviews and other relevant oversight from external sources.
- To obtain reasonable assurance that management has acted on the observations and recommendations from internal and external audit, the Audit Committee shall review regular reports on the progress of implementing approved management action plans and audit recommendations resulting from completed audits.
- Be informed of all matters that impair the conduct of an audit or review. However, where feasible such matters shall be first brought to the attention of the Regional Administrator for resolution before communicating them to the Audit Committee.
- Inquire of the CAE whether any internal audit engagements or tasks have been carried out that did not result in a report to the committee. If there have been, inquire as to the matters of significance, if any, arising from such work.
- Review and provide input on internal audit's strategic plan, program goals, performance measures, and outcomes.
- Inquire of the CAE about steps taken to ensure that the audit activity is consistent with The IIA's International Standards for the Professional Practice of Internal Auditing (Standards).
- Ensure that the internal audit function has an external quality assurance review every five years.
- Review the results of the independent external quality assurance review and monitor the implementation of the action plans to address recommendations raised.
- Advise the Council of any recommendations concerning the continuous improvement of the audit activity.

Financial Statements and Public Accountability Reporting. The Audit Committee is responsible for oversight of the independent audit of the government entity's financial statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance, and ethics.

Other Responsibilities. In addition, the Audit Committee shall:

- Perform other activities related to this charter as requested by the Council.
- Institute and oversee special investigations as needed.
- Regularly evaluate the performance of the committee and individual members.

Reporting on Audit Committee Performance. The Audit Committee shall:

- Make an annual report to the Council summarizing the committee's activities and recommendations.
- The report should include:
 - A summary of the work the committee performed to fully discharge its responsibilities during the preceding year.
 - A summary of management units' progress in addressing corrective actions on the findings and recommendations made in internal and external audit reports.
 - An overall assessment of the management units' risk, control, and compliance framework, including details of any significant emerging risks or legislative changes impacting the governing organization.

- Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended.
- The Audit Committee may, at any time, report to the Council any other matter it deems of sufficient importance.

By:

Nora Slawik

Its: Chair

Date:

By:

Meredith Vadis

Its: Regional Administrator

Date:

METROPOLITAN COUNCIL INTERNAL AUDIT CHARTER

A. AUDIT COMMITTEE

PURPOSE:

The Metropolitan Council has established a special committee of the Council to be called the Metropolitan Council Audit Committee. The purpose of the Committee is to assist the Metropolitan Council in fulfilling its oversight responsibility for the integrity of the Council's financial and operational results, compliance with legal and regulatory requirements, and the performance of internal audit and external auditors.

AUTHORITY:

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

- Approve the Chief Audit Executive's Audit Plan.
- Resolve any disagreements between management and the internal/external auditors regarding financial or operational control and reporting.
- Review and accept external auditors' reports along with management's written responses when appropriate.
- Obtain information from employees or external parties as part of its review. Council employees are directed to cooperate with Audit Committee requests.
- Meet with Council employees, external auditors, legal counsel, or others as necessary.
- Be consulted regarding changes in the Chief Audit Executive's duties.
- Be informed of all matters that impair the conduct of an audit or review. However, where feasible such matters shall be first brought to the attention of the Regional Administrator for resolution before communicating them to the Audit Committee.
- Make periodic reports to the Council or appropriate standing committee established by the Council.

RESPONSIBILITIES:

Financial and Operational Review Oversight

Review significant accounting, operational and reporting issues and understand their impact on the financial and operating results on the Metropolitan Council's system of internal control.

Review the results of internal audits and reviews with management and the Chief Audit Executive.

Review and discuss the annual audited financial statement results with management, the external auditors and the Chief Audit Executive.

Internal Control

Evaluate the effectiveness of the Council's internal control system, including information technology security and control.

Understand the scope of internal and external auditors' review of internal control over financial and operational reporting and obtain reports on significant findings and recommendations, together with management's responses.

Internal Audit

Review with the Chief Audit Executive and management the audit plan, activities, staffing and organizational structure of Internal Audit.

Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Chief Audit Executive.

Review the effectiveness of the internal audit function including compliance with the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.

COMPOSITION:

The Audit Committee shall consist of six voting members. Three shall be Council members and three shall be external members with expertise in such areas as finance, accounting, auditing, information systems, management, operations or program performance. The Audit Committee will meet at least four times a year and at the call of the Committee Chair. Audit Committee members shall be appointed by the Council Chair and approved by the full Council.

B. INTERNAL AUDIT

PURPOSE:

The purpose of the Program Evaluation and Audit Division is to provide independent, objective evaluations, audits, investigations, and consultative services to the Metropolitan Council, its management and staff. Program Evaluation and Audit will help the Council achieve its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

REPORTING:

The Chief Audit Executive is responsible for managing and directing internal audit activities. The Chief Audit Executive reports to the Metropolitan Council Regional Administrator for administrative purposes and to the Council's Regional Administrator and the Council's Audit Committee for audit purposes.

RESPONSIBILITIES:

Internal Audit shall help determine whether the Council's risk assessment, control and governance processes, as designed and implemented by management, are adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial and operational information is accurate, reliable and timely.
- Employees' actions are in compliance with policies, standard procedures and applicable laws and regulations.
- Resources are acquired economically, used efficiently and adequately protected.
- Programs, plans and objectives are achieved.
- Quality and continuous improvement are fostered in the Council's control processes.
- Significant legislative or regulatory issues affecting the Council are recognized and addressed.
- A flexible annual audit plan is developed using appropriate risk-based methodology, including any risks or control concerns identified by management and the plan is submitted to the Audit Committee for review and approval.
- The annual audit plan is implemented, including, as appropriate, any special tasks or projects requested by management and the Audit Committee.
- A professional audit staff is maintained with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- A quality assurance program is established by which the Chief Audit Executive assures the effective operation of internal auditing activities.
- Significant merging or consolidating of functions and new or changing services, processes, operations and control processes coincident with their development, implementation or expansion are evaluated and assessed.
- Internal and external audit activities are coordinated to prevent duplication and ensure proper coverage.
- Follow-up is performed to monitor and ensure that management actions have been effectively implemented or that management has accepted the risk of not taking action.

- Conduct and manage internal investigations requested by the Regional Administrator and senior management and to provide results for the Regional Administrator's decision and action.
- Periodic reporting to the Audit Committee and management summarizing results of audit activities.
- The Audit Committee is kept informed of emerging trends and successful practices in internal auditing.
- The Audit Committee is provided a list of significant measurement goals and results.
- Significant suspected fraudulent activities within the Council are investigated and management and the Audit Committee are notified of the results.
- Provide assurances as to the adequacy of internal controls and procedures, and the efficiency and effectiveness of operations.

AUTHORITY:

Internal Audit shall not have either authority or responsibility for activities which are audited or reviewed. Internal Audit shall have the following authority:

- Unrestricted access to all Council functions, records, property and personnel.
- Full and free access to the Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the Council where they perform audits, as well as other specialized services from within or outside the organization.
- Review the effectiveness of the system for monitoring compliance with laws and regulations, and the results of management's investigation and follow-up including recommendations to management instances for disciplinary action for noncompliance.
- Establish procedures for the receipt, retention and treatment of complaints received regarding accounting, operations, internal controls or other audit matters.
- Review the findings and recommendations of examinations by regulatory agencies.
- Review the process of communicating the code of conduct to Council personnel and to monitor compliance with the code through audits.
- Obtain regular updates from management and legal counsel regarding compliance matters.
- Regularly provide reports to the Council about the Audit Committee. Review results of external and internal audits of the Council together with management written responses.
- Provide an open avenue of communication among the Chief Audit Executive, the external auditors and the Council.
- Discuss major policies with respect to risk assessment with management.
- Perform other activities related to this Charter as requested by management and the Council.
- Provide feedback to the Audit Committee on their oversight responsibilities.
- Consulting services, beyond internal audit assurance services, may be performed to assist management in meeting its objectives.