

City of Batavia

Role of the Audit Advisory Committee

The audit advisory committee provides oversight to the financial and compliance reporting process, the external audit process and the control environment. The committee must be informed and vigilant overseers of the financial and compliance reporting process. The committee must understand the government's programs and operations and the interrelationship of operations with financial and compliance reporting.

The committee members will be approved by Council with the necessary qualifications;

1. An understanding of GAAP
2. An understanding of GASB
3. A financial background in Municipal Reporting
4. Recognition of significant deficiencies and risk exposures

The independent auditor provides the audit committee access to a neutral source of information regarding emerging accounting issues, industry trends and risks, tax and information reporting issues and general business advice.

The audit advisory committee must ask difficult questions of management, the financial department and the independent auditors. The committee must understand the operating risks and rewards that the City's Department Managers present to the Council.

City of Batavia

Audit Advisory Committee Roles and Duties

Membership

All members of the Audit Advisory Committee shall be independent of the management of the City and free of any relationship that, in the judgment of the City Manager would interfere with their exercise of independent judgment as audit advisory committee members.

Audit advisory committee members will not have an interest in the organization or engage in related party transactions that would have a material adverse effect on their independence or ability to act in the best interest of the stakeholders.

The Audit Advisory Committee shall consist of five members who shall serve without compensation. The City Manager shall recommend 3 members to City Council for appointment and 2 shall be City Council members appointed by the City Council.

Frequency of meetings

The committee shall meet as frequently as necessary, but no less than two times annually. The Audit Advisory Committee shall name one member, as secretary of the committee, who shall prepare and/or approve an agenda in advance of each meeting. All five members must be present for each meeting. The secretary of the committee shall maintain minutes of meetings and activities of the committee.

The committee shall, through its secretary, report regularly to the City Manager following the meetings of the committee, addressing such matters as the quality of the City's financial statements, compliance with legal or regulatory requirements, the performance and independence of the external auditors, the performance of the internal audit function or other matters related to the committee's functions and responsibilities.

Attendance

Members of the audit committee are to be present at all meetings. The secretary, at the request of the City Manager, may invite members of management, or representatives of the independent auditor to be present at a meeting of the committee.

Responsibilities of the audit advisory committee

The audit advisory committee shall aid in the communication between the City Manager and the independent auditor. The City Manager maintains final oversight responsibility as well as responsibility for appointment, dismissal, and compensation of the City's independent auditors. The audit advisory committee shall meet with the external auditors prior to commencement of the annual audit. The audit advisory committee shall assist the City Manager in its oversight of:

- * The integrity of the City's financial statements
- * The City's compliance with legal and regulatory requirements
- The independent auditor's qualifications and independence
- The performance of the City's independent auditors

The audit advisory committee shall assist the City Manager in fulfilling its oversight responsibilities by:

- * Meeting with the external auditor's prior to commencement of the audit
- * Reviewing any risk assessment
- * Reviewing the organization's draft financial information that will be made public
- Making a recommendation to the City Manager on accepting the external audit reports
- * Working with the City Manager to establish the systems of internal controls and evaluate the effectiveness
- * Reviewing the management letter
- * Reviewing corrective action plans and assisting in its implementation
- * **The committee shall provide the City Council, through correspondence, of approval or disapproval of the City of Batavia's independent audit.**

Relationships with independent auditors

The audit advisory committee shall:

- * Evaluate with the City Manager the cooperation received by the independent auditor during its audit
- * Consult with the City Council and City Manager on the appointment (and dismissal) of independent auditors to conduct the City's audit, with the independent auditor ultimately accountable to the City Council with respect to audit and related work and to oversee the performance of services by the independent auditor
- * Review the independent auditor's scope and audit plan prior to the commencement of the audit
- * Discuss with the independent auditor any relationships that may affect the auditor's independence

- * Confirm and oversee the independence of the auditor

In its review of the independent auditor, the audit advisory committee shall:

- * Ensure that the independent auditor provides the audit advisory committee (for their review) with timely reports of (1) all critical accounting policies and practices, (2) alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, effects of using such alternatives, and the treatment preferred by the independent auditing firm, and (3) other material written communications between the independent auditor and management
- * Review the qualifications and experience of senior members of the audit team
- * Review the independent auditor's reports on the adequacy of the City's internal controls, including computerized information system controls and security and its compliance with laws and regulations
- * Obtain and review annually a report by the independent auditor describing (1) the auditing firm's internal quality control procedures, (2) any material issues raised by its most recent quality control review or investigation within the preceding five years and steps taken to resolve those issues, and (3) all relationships between the independent auditor and the City.

Prior to the release thereof, the audit advisory committee shall review documents containing any of the City's annual financial statements. The audit advisory committee shall specifically review:

- * With the independent auditor and City Manager, their processes for assessment of material misstatements, identification of the notable risk areas, and their response to those risks
- * With the City Manager and the independent auditor, the City's annual financial statements and related footnotes, if applicable.
- * The independent auditor's audit of and report on the financial statements and compliance with laws and regulations
- * With the independent auditor, any additions or changes in auditing or accounting principles suggested by the independent auditor or City Manager.
- * With the independent auditor, the internal control, compliance and management letters provided by the independent auditor and the City's response, if applicable.
- * The independent auditor's qualitative judgment about the appropriateness, and not just the acceptability, of accounting principles, use of estimates, basis for determining the amounts of estimates, and financial disclosures
- * With the independent auditor, any significant difficulties or disputes with the City encountered during the course of the audit
- * Any material financial or non-financial arrangements of the organization that do not appear on the financial statements of the governmental unit and their related risks
- * With the City Manager and the independent auditor, the effect of regulatory and accounting initiatives as well as accounting principles and their alternatives that have a

significant effect on the City's financial statements

- * Any transactions or course of dealing with parties related to the City that are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties, or that are relevant to an understanding of the City's financial statements

Oversight of corporate compliance function

The audit advisory committee shall:

- * Discuss significant risk exposures periodically with the independent auditor and City Manager.
- * Suggest procedures whereby employees can confidentially and anonymously submit to the audit advisory committee concerns or issues regarding accounting, compliance or auditing matters
- * Suggest procedures for the receipt, retention and treatment of complaints regarding accounting, compliance or auditing matters, including their controls
- * Review any transactions with related parties and the procedures *used* to identify related parties
- * Periodically request City Manager and the independent auditor to review, report and comment on significant risks or exposures and actions needed to minimize such risks or exposures
- * Consider any emerging issues that the audit advisory committee should become involved with the future