

# **Montana State Board of Investments**

## **Audit Committee Charter**

**(Approved April 15, 2005)**

### **Purpose of the Audit Committee**

To assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Board's process for monitoring compliance with laws and regulations and its code of ethical conduct.

### **Authority**

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

- Retain outside counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
- Seek any information it requires from employees — all of whom are directed to cooperate with the committee's requests — or external parties.
- Meet with Board officers, external auditors, or outside counsel, as necessary.

### **Composition**

The Audit Committee will consist of at least three members of the Board. The Chairman of the Board shall serve as an ex-officio member of the Audit Committee. The Board Chairman will appoint committee members and the committee chair. Each committee member will be both independent and financially literate, as defined by the Board. At least one member shall have expertise in financial reporting or auditing.

### **Meetings**

The Audit Committee will meet at least twice a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting, in person or via teleconference. The committee will invite members of management, auditors, or others to attend meetings and provide pertinent information as necessary. It will hold private meetings with auditors (see below) and executive sessions. Meeting agendas will be prepared and provided in advance to committee members, along with appropriate briefing materials. Minutes will be prepared.

### **Responsibilities**

The committee will carry out the following responsibilities:

#### **Financial Statements**

- Review with management and the external auditors:
  - the results of the audit, including any difficulties encountered.
  - significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas,
  - recent professional and regulatory pronouncements, and understand their impact on the financial statements,
  - review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles,

- review other sections of the annual report before release and consider the accuracy and completeness of the information, and
  - review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing standards.
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
  - Review interim financial reports with management and the external auditors, before filing with state agencies and constituent groups, and consider whether they are complete and consistent with the information known to committee members.

### **Internal Control**

- Consider the effectiveness of the Board's internal control systems, including financial reporting and information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

### **Internal Audit**

- Review with management and the Internal Auditor the charter, plans, activities, staffing and organizational structure of the internal audit activity.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement or dismissal of the Internal Auditor.
- Review the effectiveness of the internal audit activity, including compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.
- On a regular basis, meet separately with the Internal Auditor to discuss any matters that the committee or internal audit believes should be discussed privately.

### **External Audits**

- Review any external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors.
- Review and confirm the independence of the external auditors.
- On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

### **Compliance**

- 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 findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating the code of ethics to Board personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and Board legal counsel regarding compliance matters.

**Reporting Responsibilities**

- Regularly report to the Board about committee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors, and the Board.
- Report annually to the Board's constituent groups, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule.
- Review any other reports the Board issues that relate to committee responsibilities.

**Other Responsibilities**

- Perform other activities related to this charter as requested by the Board.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the committee's and individual members' performance on a regular basis.