

A photograph of several business professionals in a meeting. They are gathered around a table, looking at tablets and documents. One woman in the center is holding a tablet and looking at it intently. Another person to her right is holding a white coffee cup. The scene is brightly lit, suggesting an office or conference room environment. The text is overlaid on the left side of the image.

# Audit Committees and Internal Audit Functions

Training for Charter School Boards  
based on USBE Audit Training

# Utah Code and Board Rule Governing Audit Committees

[Utah Code 53G-7-402](#)

[LEA Fiscal and Auditing Policies: Utah Administrative Code: R277-113](#)



# Audit Committee Basics

Utah Code requires that all LEAs, regardless of size, have an Audit Committee ([53G-7-402](#)).

LEA governing boards have the responsibility to ensure that all Board and Audit Committee members complete annual training on audit committees and the annual audit.



# Purpose of the Audit Committee

The primary purpose of an Audit Committee is to provide:

- Oversight of audit processes
- Oversight of internal controls including risk management
- Oversight of compliance with laws and regulations



A photograph of a business meeting with a torn paper effect. On the left, a man in a dark suit and a woman in a light blue blouse are visible, gesturing with their hands as if in discussion. The right side of the image is a solid black background with white text.

# Independence and Objectivity

An Audit Committee meeting functions as an independent forum for internal or external auditors and other regulatory bodies to report findings of fraud, waste, abuse, or non-compliance.

If an LEA has an internal audit function, it must be independent from—meaning it cannot be supervised by—the LEA administration, offices, and other operations. ([53G-7-401](#)).



## Audit Committee Membership

- If an LEA has seven or more board members, then three members of the board must serve on the Audit Committee.
- If an LEA has six or fewer board members, then two members of the board must serve on the Audit Committee.



# Who Else Can Serve on the Audit Committee?

- An LEA governing board can determine to have community members serve on its Audit Committee along with board members.
- If community members are included on the Audit Committee, the board should include individuals with audit, finance and accounting, legal, policy, compliance, or similar backgrounds.
- The board should ensure community members do not have conflicts of interest, or that any conflicts of interest have been disclosed.

# How Many Community Members?

- There are no guidelines on how many community members may serve on the Audit Committee.
- Community members should not outnumber board members on the Audit Committee because board members are ultimately accountable for Audit Committee functions.





# Who May NOT Be on the Audit Committee?

Utah law states that administrators and employees of the LEA must **not** be Audit Committee members.

# The Audit Committee Chair

- The Audit Committee Chair is the point of contact for communications with auditors and other entities.
- The Audit Committee Chair is selected in accordance with the bylaws, board policies, board leadership, or the full board.





# Audit Committee Next Steps

- An LEA governing board must maintain on its website the names of the Audit Committee members and the Audit Committee Chair.
- Community members serving on the committee are not required to be listed on the website, though it is recommended.



# Audit Committee Meetings

- Audit committee meetings should be held regularly.
- Because of the protected and confidential items discussed, the Audit Committee does not, and should not, have a quorum of board members in attendance so that the meeting does not have to follow the Utah Open and Public Meetings Act.

# Role of Staff

The Audit Committee Chair may establish the agenda, prepare or direct others to prepare materials, distribute materials, present materials, and track action.

If LEA staff are designated to help, the Audit Committee Chair should carefully consider which materials and discussions staff can help with that will not impact the committee's ability to fulfill their responsibilities.





# External Audits

An LEA governing board is responsible to select an independent auditor or CPA firm to complete these audits:

- The Financial Statement Audit which accompanies the Annual Comprehensive Financial Report or ACFR.
- The Single Audit which is a federal compliance audit.
- And the State Compliance Audit, similar to the Single audit but on the state level.

# Other External Audits

Additional external audits may be done from time to time by other entities such as the USBE Internal Audit Department, Office of the State Auditor, Office of the Legislative Auditor General, and US Department of Education.



# Financial Statement Audits

The audit opinion on financial statements provides assurance that an LEA's financial position is presented fairly in all material respects as of a certain date and time.

The auditor is essentially providing "reasonable assurance" or a professional opinion that the true financial standing of an LEA is not significantly different from what is stated in the financial statements prepared by an LEA.





# What the Financial Audit Provides

The auditor's opinion on the financial statements does not provide an opinion on internal controls, just that the auditor looked at internal controls over financial reporting enough to be able to give the opinion that amounts are reasonable.

# More Provided by the Financial Audit

The auditor's opinion does not provide an opinion on compliance, just that the auditor looked at certain provisions of laws and regulations enough to be able to give the opinion that amounts are reasonable.





# Audit Reports are Limited

The AICPA, a national leader in accounting and auditing standards, has indicated that an auditor's report is not a clean bill of health or an opinion about the entity's policy decisions, effective use of assets, or programmatic outcomes and outputs.

# Audits of Federal Compliance

The auditor's opinion is that an LEA or school complies in all material respects, with the types of compliance requirements specifically referred to, that could have a direct and material effect on each of its major federal programs.





## Assurance NOT Provided by an Audit of Federal Compliance

The auditor's report is not providing an overall opinion on internal controls; it is providing reasonable assurance about compliance related to major federal programs that were audited.

# State Compliance Audit

Generally, the same CPA or independent auditor does a State Compliance Audit, a Financial Statement Audit, and a Single Audit.

The auditor's report provides assurance that an LEA or school complied in material respects with specific state compliance requirements.





# The Financial Reporting Package

All audit reports and the statements they accompany are compiled into a Financial Reporting Package submitted to the Office of the State Auditor.

The Office of the State Auditor publishes the reports so they are available to the public.



# Monitoring

Monitoring means formally supervising, inspecting, or examining the compliance, performance, or finances of a program receiving state or federal education funding.

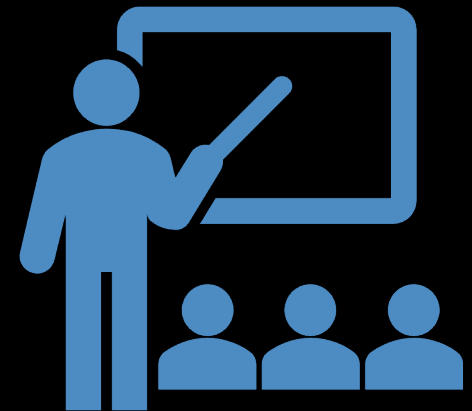
Monitoring of state and federal programs is required by law and is done in accordance with established policies and procedures of the entity that does the monitoring.

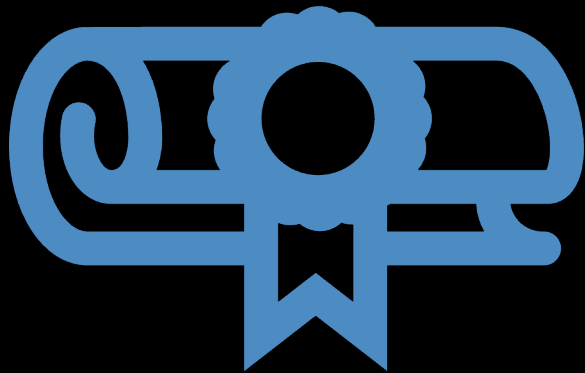
# Internal Audits

The Utah State Board of Education has an Internal Audit Department.

LEAs with more than 10,000 students are also required to have an internal audit function; other LEAs may choose to have an internal audit function as a best practice but are not required to do so.

An internal audit is defined as an independent appraisal activity established within an LEA as a control system to examine and evaluate the adequacy and effectiveness of other internal control systems within the LEA.





## Examples of Internal Audits

Use of school fee revenue

Compliance with school safety requirements

Evaluation of internal control activities such as approvals, reviews, and reconciliations

Reliability of graduation and assessment data

Travel policies and processes

# Importance of Auditing Standards

Auditing standards were developed to ensure consistency and reliability in audit procedures, which means you can have confidence in the results of audits – no matter if the audit is of a small LEA, a large state agency, or a mid-sized business organization.



# Required Standards in Utah

In Utah, Internal Auditors auditing within government must follow either The Red Book or The Yellow Book standards.

External Auditors auditing governments follow Generally Accepted Auditing Standards and The Yellow Book.

Non-governmental audits are generally done using Generally Accepted Auditing Standards or The Red Book standards.



# Importance of Independence

Auditors must avoid any conflicts of interest. The auditor and entire audit process must be free from any incentive or pressure to not accurately report audit results.





# The Hotline

An LEA governing board must provide a hotline independent from administration for stakeholders to report concerns.

The hotline may be provided by the LEA, or the LEA may refer people to the Utah State Board of Education's Public Education Hotline.

If the hotline is provided by the LEA, the individual receiving hotlines must not be supervised by LEA administration, offices, or other operations.