

Doc. T03-030
Addendum to the By-Laws
Doc. T91-100
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AUDIT COMMITTEE CHARTER

This Audit Committee Charter is a supplement to Board of Trustees' By-Laws, Doc. T91-100, Article III section 5(e), Audit Committee of the University of Massachusetts (the Committee). This supplement to the by-laws provides details on audit matters at the University.

Purpose

The primary function of the Committee is to assist the Board of Trustees in fulfilling its oversight responsibilities relating to: the integrity of the University's financial statements, the systems of internal control, the independence and performance of the external and internal audit functions, and the University's compliance with legal and regulatory requirements. In so doing, it is the responsibility of the Committee to maintain free and open communication among the Committee, independent auditors, the internal auditors and management of the University. The Committee shall take all appropriate actions to set the overall University tone for quality financial reporting, sound business risk practices, and ethical behavior.

Composition & Independence

Members, to the extent permissible under Massachusetts General Law, must be independent of management and the University (including its component units and related organizations), and be free of any financial or personal relationship that would impair such independence.

A majority of members shall be financially literate and the Chair of the Committee shall be a financial expert. Financial literacy is defined as being able to read and understand fundamental financial statements. Financial expert means a person who has one or more of the following: an understanding of generally accepted accounting principles and financial statements; experience applying such principles; experience preparing or auditing financial statements; experience with internal controls; and an understanding of audit committee functions.

Duties and Responsibilities

It is not the Committee's duty to plan or conduct audits or to determine that the University's financial statements are complete, accurate and in accordance with generally accepted accounting principles. Management is responsible for the preparation, presentation, and integrity

of the University's financial statements and for the appropriateness of the accounting principles and reporting policies used by the University.

The following shall be the principal duties and responsibilities of the Committee regarding audit matters. These are set forth as a guide that the Committee may modify or supplement as appropriate.

- Be directly responsible for the appointment, compensation, oversight and retention of the University's independent external auditor. The independent external auditor shall report directly to the Committee.
- Pre-approve all audit and non-audit services provided by the independent external auditor. The independent auditor is specifically prohibited from performing the following services:
 - Bookkeeping
 - Financial information systems design, implementation or operation
 - Appraisal or valuation services
 - Actuarial services
 - Internal audit outsourcing services
 - Management functions or human resources services
 - Investment banking services
 - Legal services
- Ensure proper rotation of the lead audit partner on the University's engagement, consistent with NACUBO recommendations.
- Provide sufficient opportunity for the independent external auditors and the internal auditor to meet privately with the Committee.
- Confirm with management and the independent external auditor to determine whether the external auditor is satisfied with the disclosures and content of the financial statements, including the nature and extent of any significant changes in accounting principles. Make inquiries of management and the external auditor concerning the effectiveness of the University's system of internal controls.
- Review with management, the independent auditors and the internal auditors their judgments about: the quality, not just the acceptability, of the University's accounting principles; the consistency in the application of accounting policies; the reasonableness of significant judgments; the degree of aggressiveness or conservatism in applying the accounting principles; and the clarity and completeness of the financial statements and related disclosures.
- Review and approve the annual financial statements of the University and the audit report on Federal Awards as required by OMB Circular A-133.

- Review with management and the independent external auditor all matters required to be communicated to the Committee under generally accepted auditing standards, including communications under Statement of Auditing Standards No. 114, The Auditor's Communication with Those Charged with Governance.
- Receive periodic reports from the Director of Internal Audit regarding all audit activity at the University. Annually review and approve the Internal Audit Charter, Doc. T06-061.
- Maintain adequate policies and guidelines for receiving complaints regarding accounting controls and reports of financial fraud. Receive briefing on any financial fraud situation or whistleblower complaints from the internal auditor or management.
- Monitor the University's conflict of interest policies, principles of employee conduct, and fraud policy.