



SURPRISE

ARIZONA

Audit Committee Bylaws

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I. Ordinance

On September 6, 2016, Ordinance #2016-25 of the Mayor and Council of the City of Surprise amended Chapter 2, Article VIII of the Surprise Municipal Code by adding Section 2-304, Audit Committee, that formally established an Audit Committee and its powers and duties .

II. Purpose

The purpose of the Audit Committee (AC) shall be to provide advice to City Council in respect to fulfilling its oversight responsibilities regarding the integrity of the financial statements of the City of Surprise, Arizona (City). The AC will further assist and advise the Internal Auditor (IA) and City Council on matters relating to the City’s compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. Consistent with this function, the AC endeavors to encourage continuous improvement of, and foster adherence to, City policies, procedures and practices at all levels.

III. Composition

The AC shall consist of seven (7) members appointed by the Mayor: two (2) elected City council members, three (3) citizens, and two City department executives.

AC members should have an understanding of financial reporting, accounting, auditing, or related business field(s), be familiar with local government operations, and have sufficient time to effectively perform the duties listed herein. At least one (1) member shall be designated as the “financial expert”.

The members of the AC will designate a Chairperson and Vice Chairperson by majority vote. The Chairperson has the authority to sign correspondence and resolutions as the official representative of the AC. During the absence of the Chairperson, the Vice Chairperson shall act as the presiding officer over all AC meetings and activities.

Members will be appointed for a period not exceeding two (2) years, after which they will be eligible for extension or re-appointment for one (1) additional term. Each term shall start on July 1st of the applicable year. Any vacancy shall be filled in a timely manner. Members shall be appointed to achieve staggered two (2) year terms

IV. Voting

Each member of the AC shall have one (1) vote. AC members must be present at the time of the vote. The act of the majority of AC members present at the meeting, at which a quorum is present, is the act of the AC. A quorum shall consist of four (4) AC members, one (1) of whom shall be a City council member.

AC members cannot vote on any matter in which they, directly or indirectly, have a material interest.

V. Conflict of Interest

AC members will annually provide written declarations to the Chairperson stating they do not have any conflicts of interest that would preclude them from being members of the AC.

VI. Responsibility

The AC's primary duties and responsibilities include:

- ❖ Reporting to the City Council on problem areas as deemed appropriate
- ❖ Reviewing and approving the internal Annual Audit Plan. In making its pre-approval determination, the AC shall consider whether providing any non-audit services is compatible with maintaining the IA's independence.
- ❖ Considering and reviewing with the IA:
 - ✓ Significant audit findings during the year and management's responses to them
 - ✓ Monitoring follow up on reported findings to assure corrective action is taken
 - ✓ Any difficulties encountered during the performance of an audit conducted, including any restrictions or limitations on audit scope or access to required information
 - ✓ Any changes required in the planned scope of the Annual Audit Plan
 - ✓ The internal Audit Charter
 - ✓ The Internal Audit Office's overall performance and its compliance with accepted standards for the professional practice of internal auditing
- ❖ Evaluating findings and recommendations resulting from the Internal Audit Office peer review
- ❖ Meeting at least once annually with the City's external auditor to discuss the City's Comprehensive Annual Financial Report and other applicable risk management and City financial concerns.
- ❖ The AC may, in its discretion, also review reports from City management on other finance, legal, and administrative issues to the extent that it deems appropriate or necessary.

- ❖ Periodically assess the AC's performance under the bylaws, reassess the adequacy of the bylaws, and report to the City Council the results of the evaluation and any recommendations for proposed changes to the bylaws
- ❖ Performing other functions as requested by City Council

VII. Compliance

The AC shall:

- ❖ Discuss significant risk exposures periodically with the independent external auditor, City management and the IA
- ❖ Review the steps and programs that City management and the IA have taken to identify, monitor, control and report such exposures
- ❖ Establish procedures whereby employees can confidentially and anonymously submit to the AC concerns or issues regarding the City's accounting, compliance, ethical, or auditing matters
- ❖ Periodically require City management, the IA and the independent external auditor to review, report and comment on significant City risks or exposures and actions needed to minimize such risks or exposures
- ❖ Review the City code of ethics and recommend any changes or additions
- ❖ Consider any emerging issues that the AC should become involved with in the future

VIII. Other Responsibilities

The AC shall oversee the IA's receipt, retention and treatment of fraud hotline complaints regarding accounting, internal accounting controls or auditing matters. The IA shall keep a record of complaints and inform the AC periodically of complaints received and actions taken for resolution.

IX. Meetings

The AC shall meet as frequently as circumstances dictate, but no less than four times annually. All AC members are expected to attend each meeting, in person or via tele or video-conference. The AC will invite members of City management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors and executive sessions. The AC shall name a Chairperson, who shall prepare and/or approve an agenda in advance of each meeting. A majority of the members of the AC shall constitute a quorum. The AC shall maintain minutes or other records of meetings and activities of the AC.

The AC shall, through its Chairperson, report regularly to the City Council following the meetings of the AC, 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 AC's functions and responsibilities.

X. Access

The AC may request reports from the Chief Financial Officer or City department heads. The AC may retain (and determine the funding for) experts to advise or assist it, including outside counsel, accountants, financial analysts or others, and the organization shall provide sufficient funding therefore.

XI. Limitation of Audit Committee's Role

While the AC has the responsibilities and powers set forth in the bylaws, it is not the duty of the AC to plan or conduct audits or to determine that the City's financial statements and disclosures are complete and accurate and are in accordance with GAAP and applicable rules and regulation. These are the responsibilities of City management and the independent external auditor.

Members of the AC are entitled to rely on the expertise, knowledge, and professional judgment of City management, the IA, the independent external auditor(s), and any consultant or expert retained by the AC. The AC's responsibilities are not to be interpreted as a substitute for the professional obligations of others.

Nothing contained in the bylaws are is intended to expand the applicable standards of liability under statutory or regulatory requirements for the City Council.

XII. Authority

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

- ❖ Advise City Council on the appointment, compensation, and oversee the work of any registered public accounting firm hired by the City
- ❖ Resolve any disagreements between City Management and the independent external auditor regarding financial reporting, and other non-auditing services
- ❖ Resolve any disagreements between City Management and the IA regarding audit scope, observations, and recommendations
- ❖ Obtain any information it requires from any City employee, volunteer, or other external parties, subject to legal confidentiality restrictions, necessary to complete AC responsibilities

- ❖ Request attendance of any employee or volunteer of the City and its enterprises at AC meetings
- ❖ Pre-approve all auditing and non-audit services
- ❖ Retain independent counsel or others to advise the AC or assist in the conduction of an investigation
- ❖ Request from City Council, sufficient funds to exercise the powers and duties set forth herein

These bylaws and the policies therein become effective immediately upon adoption by the Audit Committee.



Audit Committee Chair

1/23/18

Date