

AUDIT COMMITTEE

Section 1: Creation

The Board of Trustees created a “State Bar Audit Committee” to oversee the hiring and supervision of the financial auditors pursuant to Business and Professions Code §§ 6145 and 6222, which require that the State Bar submit a copy of its audited financial statements within 120 days of the close of the fiscal year to the Board, the Chief Justice of the Supreme Court, and to the Assembly and Senate Judiciary Committees.

Section 2: Charter for Audit Committee

I. Delegation of Authority to the State Bar Audit Committee

A. Charge: The State Bar Audit Committee is charged with the following responsibilities:

1. Selecting the independent auditor for the State Bar’s annual financial statement audit;
2. Monitoring the progress of the financial statement audit;
3. Evaluating the results of the financial statement audit;
4. Ensuring that control weaknesses and legal compliance violations identified in the course of the financial statement audit are promptly and effectively remedied;
5. Serving as a direct communications link between the Board of Trustees and the independent auditor; and
6. Monitoring the adequacy of the State Bar’s internal control structure on an ongoing basis.

B. Access to Information: The State Bar Audit Committee may request any independent auditor, expert, officer; trustee, agent or employee of the State Bar to appear before it to report on the financial condition of the State Bar and answer any questions the Committee might have, relating to the accomplishment of its responsibilities enumerated under section I.A.

II. Role and Responsibility of the State Bar Audit Committee

A. Oversight Scope Defined: The role and responsibility of the State Bar Audit Committee is oversight, not preparation or operation. State Bar Management is responsible for preparing the financial statements, governmental and other reports of the State Bar, for operating the State Bar, including its financial and

accounting systems, and for assuring compliance with applicable laws and with policies and procedures established by the Board. The outside auditors are responsible for auditing the financial statements and such other functions as they are specifically engaged to audit.

- B. Reliance on Management, Auditor, and Advisory Information: In carrying out its oversight function, the State Bar Audit Committee is not expected to provide expert or special assurance as to the State Bar's financial statements or professional certification as to the work of the State Bar's staff or of the outside auditors. In discharging their duties, the members of the State Bar Audit Committee may rely on information, opinions, reports or statements, including financial statements or other financial data, prepared or presented by officers, employees, internal or external counsel, public accountants, committees of the board duly designated with authority in particular areas, or other persons whom the member believes are reliable and competent in the matters presented, provided that in so relying the member is acting in good faith and with that degree of diligence, care and skill which ordinarily prudent the State Bar Audit Committee members would exercise under similar circumstances. The Chief Financial Officer is charged with presenting all material matters to the State Bar Audit Committee not satisfactorily resolved by State Bar Management, including expedient contact with the State Bar Audit Committee Chairperson when necessary.

III. Customary Activities of the State Bar Audit Committee

The following functions are appropriate common recurring activities of the State Bar Audit Committee in carrying out its oversight function.

A. External Audit:

1. Recommend appointment of the external auditors, taking into account the recommendation of the Executive Director and Chief Financial Officer, for approval by the full Board of Trustees.
2. Review and approve the annual audit scope and fees of the external auditors.
3. Evaluate the independence of the external auditors, including their recent or planned future engagement by the State Bar for non-audit services.
4. Evaluate the report of the external auditors regarding the results of the annual audit including, but not limited to:
 - a. The audited financial statements and management letter recommendations and Management's responses thereto.

- b. The adequacy of the State Bar's system of internal controls.
- c. Management's cooperation with the external auditors.
- d. The adequacy of the State Bar's accounting policies and practices, including the level of compliance with governmental regulations and with recent professional pronouncements and their impact on the financial statements.

B. Financial Management:

- 1. Review and evaluate Management's determination of the adequacy of the State Bar's system of internal controls and the extent to which recommendations made by external auditors have been implemented.
- 2. Review the results of the biennial performance audit conducted by the State Bureau of Audits.
- 3. Review reports of external auditors or consultants engaged for specific purposes.

C. Other Functions of the State Bar Audit Committee:

- 1. Provide advice and counsel to the Executive Director and Chief Financial Officer.
- 2. Perform such specific oversight functions as expressly requested by the Board of Trustees.
- 3. Quarterly reviews of the reports prepared by the Office of Finance regarding Senior Executives' and Board Members' travel and expense reimbursements, which includes summaries of expenditures

The Audit Committee is chaired by the Treasurer and should have the goal of including at least one public member of the Board of Trustees.

(Source: Board of Governors' Resolutions, October 2004, July 2005; Board of Trustees Resolution July 2014.)

Historical Note

At its July 2014 meeting, the Board of Trustees adopted the Board Executive Committee charter that makes the Audit Committee subject to Executive Committee oversight, meaning that the Audit Committee will generally report to the Executive Committee rather than the full Board, except where Board action is needed.

The Audit Committee maintain its functions, but the Board repealed the appointment structure that was established for Audit, which required that the following board members be appointed to the Audit Committee: the President, who shall be chair, a 1st year member, a 2nd year member, two 3rd year members and a public member, each of whom shall serve on this committee throughout his/her term on the Board. In 2013, the Board acted to provide that the Treasurer is to serve as Chair of the Audit Committee. The charter also continues to state that the committee should have at least one public member.