



## **AUDIT COMMITTEE** **CHARTER**

### **Committee Purposes**

1. To assist in oversight of Commission's financial statements and financial reporting process, the Commission's compliance with legal and regulatory requirements and the system of internal controls.
2. To provide oversight of the audit process including the selection and performance of the Commission's independent auditors including the qualification, independence, appointment, compensation, and oversight of the independent certified public accountant to conduct the audit.

### **Committee Composition**

1. The Committee shall consist of at least five members of the Commission, one of whom shall be designated the Chair, each selected by the Management Committee.
2. Pursuant to the current Bylaws, an Audit Committee member shall not be a member of the Management Committee. Until such time as the Bylaws change this requirement, the Management Committee shall assign one of its members to regularly attend and participate in the Audit Committee meetings and activities.
3. In carrying out the responsibilities below, each member of the Audit Committee shall disclose any actual or potential conflicts in accordance with the IIPRC Code of Ethics including financial interests with respect to firms providing independent audit services.
4. Regulators in Compacting States who are not a member of the Audit Committee may participate in all meetings of the Audit Committee, other than making motions or voting on committee matters. Only members of the Audit Committee may attend the executive member-only session.

### **Committee Responsibilities**

1. Financial Management Oversight
  - (a) Review the Commission's consolidated financial statements and reports from management on the financial operations of the Commission on a quarterly basis.
  - (b) Review the Commission's investment reports on the performance of the Commission's investment portfolio, if any, on a quarterly basis and, when necessary, meet directly with the investment advisory firm's representatives to hear periodic reports and recommendations.

## 2. Independent Auditor Selection and Oversight

- (a) Conduct a process for the selection of the independent auditor and recommend the selection of the independent auditor at a meeting that is open to the public.
- (b) Appoint and approve the compensation of the independent auditor, oversee the work of the independent auditor, and review and recommend the discharge of the independent auditor.
- (c) Confirm and assure the independence of the Commission's independent auditor.
- (d) Instruct the independent auditor that the Commission is the auditor's client.
- (e) Consider, in consultation with the independent auditor, the annual audit scope and plan, staffing, fees and professional qualifications of the independent auditor.
- (f) Meet periodically with the independent auditor and management in executive sessions, as necessary and appropriate, to discuss any matters that the Committee or these groups believe should be discussed privately with the Committee.
- (g) Present the report of the independent auditor to the Insurance Compact Commission.

## 3. Relationship with Independent Auditor

- (a) Provide an open avenue of communication between the independent auditor and the Commission.
- (b) Inquire of management and the independent auditor about significant risks or exposures and assess the steps management has taken to minimize such risks.
- (c) Advise management and the independent auditor that they are expected to provide a timely analysis of significant current financial reporting issues
- (d) Consider and review with the independent auditor:
  - i. the adequacy of internal controls including computerized information system controls and security, and related findings and recommendations of the independent auditor with management's responses;
  - ii. the independent auditor's independent qualitative judgments about the appropriateness, not just the acceptability, of the accounting principles and the clarity of the Commission's financial disclosure practices, and how such principles and disclosure practices may affect donors and public views and attitudes;
  - iii. the independent auditor's views about whether management's choices of accounting principles are conservative, moderate, or aggressive from the

- perspective of income, asset and liability recognition, and whether those principles are common practices or are minority practices;
  - iv. the effects of regulatory and accounting initiatives on Commission's financial statements; and
  - v. analyses, if any, prepared by management or the independent auditor setting forth significant financial reporting issues and judgments made in connection with preparation of the financial statements.
- (e) Consider and review with management and the independent auditor:
- i. the results of annual audits of the financial statements and accompanying footnotes and the independent auditor's report;
  - ii. significant findings during the year, including the status of previous audit recommendations;
  - iii. any significant changes required in the independent auditor's audit plans;
  - iv. any difficulties or disputes with management encountered during audit work, including any restrictions on the scope of activities or access to required information;
  - v. any management letter provided by the independent auditor and the Commission's response to such letter; and
  - vi. other matters related to the conduct of the audit which are to be communicated to the Committee under Auditing Standards Generally Accepted in the United States of America.

#### 4. Other Committee Activities

- (a) To develop an annual work plan and calendar for the audit and risk management initiatives for the annual period.
- (b) Review and approve requests for any management consulting engagement to be performed by the independent auditor and be advised of any other study undertaken at the request of management that is beyond the scope of the audit engagement letter.
- (c) Review and update the Committee's Charter as required and on an annual basis at a minimum.
- (d) Annually review Management's Discussion and Analysis (MD&A) of financial position and results of operations, which is separate from the independent audit report.
- (e) Request members of management or others to attend committee or other meetings and provide pertinent information, as necessary.

- (f) Initiate or review the results of an audit or investigations into the business affairs of the Insurance Compact Commission. The Committee shall be empowered to retain independent counsel and other professionals to assist in the conduct of any investigation.
- (g) To provide input on issues, questions, strategic planning, and other matters as requested by the Officers, Management Committee, and Insurance Compact Commission.

### **Committee Authority**

1. The Audit Committee is authorized under Article IX, Section 5 of the Insurance Compact Commission Bylaws.
2. The Audit Committee shall select an auditor at a meeting that is open to the public.
3. Prior to a public meeting of the Audit Committee, notice shall be provided at least fifteen (15) days prior to the meeting to members and their designated representatives in Compacting States, members of the Legislative Committee, Consumer Advisory Committee and Industry Advisory Committee, and to parties who have requested in writing to receive such notices.
4. The Committee shall have direct access to, and complete and open communication with, management and may obtain advice and assistance from internal legal, accounting, and other advisors to assist it.
5. In performing its functions, the Committee is entitled to rely on the findings of fact, advice, reports, and opinions of management as well as legal, accounting, and other advisors retained by the Commission. The Committee may retain, if appropriate, independent legal, accounting and other advisors to assist it, and may determine the compensation of such advisors, and the Commission shall be responsible for any costs or expenses so incurred.
6. The Committee shall exercise such other powers and authority as the Management Committee may from time-to-time delegate.

### **Reporting**

1. The Audit Committee shall report on a quarterly basis or more frequently, if necessary, on significant results of the Committee's activities to the Insurance Compact Commission, and in certain circumstances, to the Management Committee.
2. The Committee shall review the final audit report and transmit such to the Insurance Compact Commission at its next scheduled meeting.
3. The Committee shall arrange for the independent auditor to be available to the Insurance Compact Commission, upon its request, at least annually.

### **Committee Meetings**

1. A majority of the members of the Committee shall constitute a quorum for the transaction of business at a Committee meeting, unless a different quorum requirement is specified by Bylaws, the Commission or the Management Committee.
2. The Committee will meet at least four times a year or more frequently as it deems necessary or appropriate to carry out its responsibilities. The Committee may ask members of management or others to attend meetings and provide pertinent information, as necessary.
3. The Committee shall meet periodically with the independent auditor and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately with the Committee.
4. The Committee members may participate in a committee meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at the meeting.
5. Any action required or permitted to be taken at a Committee meeting may be taken without convening a meeting if all the members of the Committee individually consent in writing to the action. Electronic mail or other transmission capable of authentication that appears to have been sent by the person voting shall be considered a signed, written consent for purposes of this section. Such written consents shall be filed with the minutes of the Committee and shall have the same force and effect as a unanimous vote of the Committee.
6. Regulators in Compacting States who are not a member of the Audit Committee may participate in all meetings of the Audit Committee, other than making motions or voting on committee matters. Only members of the Audit Committee may attend the executive member-only session.

#### **Annual Governance Effectiveness Survey and Evaluation**

1. In December of each year (or earlier or later if applicable), the members and interested regulators of the Audit Committee shall complete a survey regarding the effectiveness of the Audit Committee activities and meetings.
2. At one of the first three regulator-only meetings of an annual period, the Audit Committee will include an agenda item to discuss Committee Governance and Effectiveness Evaluation including review of survey results.
3. At one of the first three regulatory-only meetings of an annual period, the Audit Committee will review and update, if needed, its Charter and adopt its annual workplan and calendar.
4. The Committee shall annually assess, discuss, and implement recommendations to improve its governance effectiveness, and shall annually review its charter to identify and needed updates.