

CITY OF NEWTON

IN BOARD OF ALDERMEN

December 6, 2010

RESOLUTION CREATING A FINANCIAL AUDIT ADVISORY COMMITTEE¹

BE IT RESOLVED: that the Board of Aldermen hereby sets out its purpose to create a Financial Audit Advisory Committee to assist the Comptroller and the Board's Finance Committee in the review of audit and fiscal accountability matters.

Financial Audit Advisory Committee

Purposes, Composition and Appointment, Meetings and Duties

Purpose: The Financial Audit Advisory Committee will advise the Board of Aldermen through the Board's Finance Committee and has as its purpose to allow and encourage the Board to devote more time to fiscal accountability matters, and thereby elevate the importance of fiscal accountability through strong internal controls, budgetary and other legal compliance, accurate and timely financial reporting and a culture of ethical behavior.

The Financial Audit Advisory Committee will assist Newton's Board of Aldermen and the Comptroller in fulfilling its oversight responsibilities for the financial reporting process to ensure transparency and integrity, effective systems of internal control, auditing, and monitoring of compliance with laws and regulations.

Composition and Appointment: The Financial Audit Advisory Committee shall consist of nine members as follows:

- The Finance Committee Chairman, and three other aldermen appointed by the President of the Board of Aldermen, and four citizens of the City with financial expertise² appointed by the President of the Board of Aldermen with input from members of the Board of Aldermen, all of whom shall serve at the pleasure of the President of the Board.
- One School Committee member appointed by the President of the Board upon the recommendation of the Chair of the School Committee, who shall serve at the pleasure of the Chair of the School Committee.

¹Note: in order to conform to Article IV, Section 3 of the Board Rules, this is a resolution, but it is intended that it be reprinted as a continuing resolution with the Rules and Orders of the Board so that it will be easily available to Board members and the public after its adoption.

² Financial expertise may include the person having completed a program of learning in accounting or auditing; having experience as a principal financial officer, comptroller, public accountant or auditor; having experience overseeing or assessing the performance of companies, non-profits or municipal organizations or accountants with respect to the preparation of financial statements; or having other relevant experience. For example, the person may have an understanding of generally accepted accounting principles (GAAP) and financial statements; the ability to apply such principles in connection with the accounting for estimates, accruals, and reserves; experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that can reasonably be expected to be raised by the City's financial statements, or experience actively supervising one or more persons engaged in such activities; and an understanding of internal controls and procedures for financial reporting.

The President, in consultation with the Finance Committee Chairman, will appoint the Chairman of this Audit Committee from among the members of the Board of Aldermen on the Committee. Initial citizen terms shall be staggered as follows: one for a term of one year, one for a term of two years, and two for a term of three years. Thereafter, each citizen appointment shall be for a term of three years. No citizen member shall be eligible to serve as a member for more than two consecutive full terms, not counting any initial one or two year term appointment.

Meetings The Committee is expected to meet at least four times a year, customarily on the Wednesday following the fourth Monday of the month. The committee may invite members of the Executive Department, management, auditors, or others to attend meetings and provide pertinent information, as necessary. It may hold meetings with auditors and, when appropriate, with the Chief Operating Officer, the Chief Financial Officer, the Treasurer, the Comptroller, the City Solicitor, or others.

Duties The Financial Audit Advisory Committee will advise and assist the Board, acting through the Finance Committee, and the Comptroller, by:

- Recommending to the Board of Aldermen appointment of registered public accounting firms employed by the City for auditing and financial review.
- Assisting in oversight of registered public accounting firms employed by the City for auditing and financial review.
- Assisting in resolving any disagreements between the City and the auditor regarding financial reporting.
- Helping pre-approve auditing and non-audit services by outside firms.
- Advising the Board about when it is appropriate to request funding from the Mayor to retain independent counsel, accountants, or others to advise the Financial Audit Advisory Committee.
- Requesting information from employees or external parties.
- Meeting with City officials, external auditors, or outside counsel, as necessary.

The Financial Audit Advisory Committee will report and make recommendations to the Finance Committee. The Finance Committee will receive and, as appropriate, vote on recommendations from the Financial Audit Advisory Committee. As the Financial Audit Advisory Committee has citizen members, items docketed to the Finance Committee may then be referred to the Financial Audit Advisory Committee by vote of the Finance Committee.

In its advisory function, the committee will carry out the following responsibilities:

Financial Statements Obtain from Comptroller and/or external auditors information on significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.

- Review the external annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.

- Review with City officials and the external auditors all matters required to be communicated to the committee under generally accepted auditing standards.
- Review draft external financial reports with management and the external auditors before filing, and consider whether they are complete and consistent with the information known to committee members.

Internal Control Consider the effectiveness of the City's internal control systems, including information technology security and control.

- Evaluate areas of significant risk or exposure facing the City; assess the steps City officials have taken or propose to take to minimize such risks; and periodically review compliance with such steps.
- Understand the scope of external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- Review with the Executive and School Departments the policies and procedures with respect to use of appropriated monies and funds within its control.

External Audit Review the external auditors' proposed audit scope, approach, and fees, including coordination of audit effort with internal employees.

- Review the performance of the external auditors, and exercise approval on the appointment, replacement, reassignment, or dismissal of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the City, including non-audit services, and discussing the relationships with the auditors.
- Establish a regular schedule for periodically discussing whether to re-bid the audit contract with an outside CPA firm.
- Review with City officials and the external auditors the results of the audit, including any difficulties encountered.
- Review City's responses to the audit.
- Review with the independent auditor all critical accounting policies and practices used and alternative treatments of financial information within generally accepted accounting principles.
- On a regular basis, meet with the external auditors to discuss any matters that the committee or auditors believe should be discussed.

Compliance Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.

- Review the findings of any examinations by regulatory agencies, and any auditor observations.

- Review the process for communicating any code of conduct in effect as well as conflict of interest policies to City and School personnel, and for monitoring compliance therewith, including whistleblower policies in effect.
- Review the procedures for the receipt, retention, and treatment of complaints (including confidential or anonymous ones) received by the City regarding accounting, internal accounting controls, auditing matters, or suspected fraud that may be submitted by internal or external parties; as well as assisting any Finance Committee review of any complaints that have been received, current status, and resolution.
- Obtain regular updates from management and City legal counsel regarding compliance matters.

Reporting Responsibilities Report regularly to the Board of Aldermen about committee activities, issues, and related recommendations.

- Provide an open avenue of communication between the Comptroller, the external auditors, the Executive branch, the Board of Aldermen, and the School Committee on financial management and audit matters.

Other Responsibilities Perform other activities related to this resolution as requested by the Board of Aldermen.

- Assist the Finance Committee in any special investigations relating to the Financial Audit Advisory Committee's scope of responsibilities, as requested.
- Review and assess the adequacy of these Financial Audit Advisory Committee purposes and duties annually, requesting Board of Aldermen approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Report annually confirming that the responsibilities outlined in these purposes and duties have been carried out.

Under Suspension of Rules

Readings Waived and Resolution Approved

21 yeas 0 nays 3 absent (Aldermen Freedman, Salvucci, and Sangiolo)

(SGD) DAVID A. OLSON, City Clerk