

SECTION: **POLICY STATEMENT - GENERAL AND ADMINISTRATIVE**

SUBJECT: **INDEPENDENT AUDIT ENGAGEMENT POLICY**

PURPOSE: To provide management with the requirements and guidelines developed by the Chancellor's Office for establishing the criteria and process to be used by the Corporation in the screening, engaging, and monitoring of the independent auditor.

EFFECTIVE DATE: **September 10, 2004**

HISTORICAL: December 19, 1985; June 8, 2001; September 10, 2004

INDEPENDENT AUDIT ENGAGEMENT POLICY

I. BACKGROUND AND PURPOSE

- A. The governing body of each auxiliary organization is responsible for selection and monitoring of its independent auditor. Cal. Education Code Sec. 89900(a) and Administrative code Sec. 42404(c).

In the interest of sound business practice standards, the Chancellor's Office developed basic guidelines to assist and strengthen auxiliary governing board interaction in the audit process. Appendix K, Manual of Policies and Procedures for Auxiliary Organizations of the CSU.

This policy statement implements these requirements and guidelines by establishing the criteria and process to be used by the Cal Poly Corporation ("CPC") in the screening, engaging, and monitoring of the independent auditor.

II. POLICY

A. Initial Screening

1. A formal Request-for-Proposal (RFP) process shall be used to seek qualified accountant firms for independent audit services. The content of the RFP shall include, but not be limited to, the following components:
 - a. Preface and Invitation - A description of the CPC and scope of audit services sought, together with a request to submit engagement proposal;
 - b. Qualifications - A statement of the minimum qualifications required from proposing firms, together with a requirement for a list by name and experience of the audit team members to be assigned to the engagement;

- c. Service Rendered - An itemization of the audit services sought by:
 - (a) period of audit
 - (b) detailed specifications of the required examination sought.
 - d. Reports Required
 - e. Schedule of Reports
 - f. Meetings and Timing
 - g. Method and Basis of Compensation
 - h. Additional Services Sought
 - i. Proposal Format
 - j. Information on Cal Poly Corporation
2. The RFP development, proposal review, and engagement process shall be scheduled in a manner that will allow the Board to act on an engagement proposal in a timely fashion to facilitate audit services during the fiscal year for which the services are being sought.

B. Selection Criteria

1. The fundamental criteria to be used in selecting an independent audit firm should be reputation, capability, and service cost.
2. The audit firm selected should have demonstrated through the RFP evaluation process that the engagement proposal is complete, responsible, and responsive to the audit specifications and request for proposals.

C. Engagement

1. The acceptance of an independent audit services proposal shall be by formal minute action of the Board of Directors and confirmed in writing to the accounting firm selected. The engagement relationship is such that the audit firm is hired by and reports results to the full Board of Directors, while working closely with management to achieve desired improvements.

D. Monitoring

1. Following the report of independent audit results for each fiscal year, the Board of Directors will evaluate the performance of the audit firm. The performance evaluation should consider the following factors:
 - a. Did the firm meet all audit requirements, including the instructions, procedures, and format called for by the CSU auxiliary auditing and

reporting system?

- b. Did the firm maintain an audit schedule, which met specification requirements?
- c. Were reports and recommendations timely, clear, complete, and fair?
- d. Were the firm personnel assigned to the audit those identified in the proposal? Did they perform their duties in a professional manner?
- e. Has the audit firm assigned different, yet fully qualified personnel to perform the audit on a cyclical basis in order to ensure new audit perspectives are continually brought forward?
- f. Was the firm responsive to special audit service needs during the year?

E. Continued Engagement

1. Based upon a favorable performance evaluation by the Board of the audit services rendered for each year, the Board may consider continued engagement of the accounting firm, within an engagement term, based upon a written offer submitted by the firm. The requirements of the RFP, as may be modified by the Board, and of Section C above, shall be observed for such continued engagements.
2. It shall be the general policy of the Board that an engagement term be limited to a total of four (4) years. A fifth year extension may be considered by the Audit Committee for subsequent recommendation to the Board based upon exemplary performance by the engaged audit firm. An audit firm engaged in a prior term is eligible to respond to an RFP for a subsequent term.

III. PROCESS

- A. The independent audit engagement policy set forth above shall be implemented by the Board, an audit committee, and by management using the process described in this section.
 1. Audit Committee
 - a. A standing Audit Committee shall be established, with membership to include no fewer than three members of the Board of Directors, and may include non-Board members. At least one member of the Audit Committee should have professional accounting or financial experience. The Board Chair and the University President, or his designee, shall be ex-officio members of the Audit Committee.

- b. The Board Chair will appoint the Board of Director members of the Committee and the Committee Chair, as well as the non-Board members of the Committee.
- c. The Audit Committee's charge is to:
 - (1) Develop and send audit services RFP's when required;
 - (2) Screen and recommend the engagement of audit firms to the Board;
 - (3) Monitor and evaluate audit performance, reporting findings to the Board; and
 - (4) Develop and recommend audit-related policy/process to the Board.

2. Management

- a. The Executive Director shall provide appropriate staff support to the Board and the standing audit committee to carry out the above policy and process.