



Audit Subcommittee Charter
The Trustees of Davidson College

*Adopted by the Executive Committee
September 9, 2004*

*Approved by the Finance and Budget Committee
October 8, 2004*

I. Purpose:

The Audit Subcommittee of the Board of Trustees of Davidson College shall represent the Trustees with respect to the Trustees' oversight of (a) the quality and integrity of the College's financial statements, (b) compliance by the College with legal and regulatory requirements relating to financial matters, and (c) the appointment, compensation of, and oversight of the College's external auditors, including their ongoing independence from the College.

II. Composition and Qualifications:

The Audit Subcommittee shall be a subcommittee of the Finance and Budget Committee. It shall consist of at least three Trustees then serving on the Finance Committee, all of whom shall be independent of management and shall have a practical knowledge of finance and accounting and be able to read and understand financial statements. The Chair of the Finance and Budget Committee shall appoint the members and chair of the Subcommittee.

III. Meetings:

The Subcommittee shall meet at least twice annually, or more frequently as circumstances dictate. The Subcommittee shall meet annually to retain the external auditors for the College. In addition, the Subcommittee shall meet with the independent auditors and management annually in October to review the College's financial statements in a manner consistent with Section IV of this Charter and such meeting shall include an executive session, whereby the Subcommittee meets privately with the auditors without management present. The Chair of the Audit Subcommittee shall develop, in consultation with management, the meeting agendas.

In addition to scheduled meetings, the Subcommittee shall directly contact the auditors, as deemed necessary, to carry out their duties. The Subcommittee shall also make it known to the auditors that the auditors are expected to initiate contact with the Audit Subcommittee Chair if at any time a private discussion without management present is deemed appropriate.

IV. Authority and Duties:

A. Authority

When acting within the scope of its stated purpose as set forth in Section I of this Charter, the Subcommittee shall have the full authority of the Finance and Budget Committee. In discharging its oversight role, the Subcommittee is empowered to study or investigate any matter of interest or concern that the Subcommittee in its sole discretion deems appropriate for study or investigation.

B. Duties

The Subcommittee's principal responsibility is one of oversight. The College's management is responsible for developing and implementing policies, procedures and controls to ensure the integrity of the financial records and for preparing the College's financial statements. The outside auditors are responsible for auditing those financial statements. The Subcommittee's specific responsibilities and duties are as follows:

1. Outside Auditors: Their Performance and Independence

- a. Review and approve the engagement or termination of the independent auditors and approve audit scope and timing as well as engagement fees. If deemed necessary, the Subcommittee shall initiate requests for expanded scope and/or procedures.
- b. Approve in advance any non-audit engagement or relationship between the College and the independent auditors, which results in, or is expected to result in, fees of more than \$5,000, or in the annual aggregate fees from multiple engagements exceeding \$15,000. The Subcommittee shall pay particular attention to whether the terms of any agreement are fair and whether the proposed engagement or relationship would be inconsistent with the auditors' responsibility to perform an annual independent financial audit.
- c. Review, at least annually, the qualifications, performance, effectiveness, and independence of the independent auditors with consideration of the following:
 - (1) The audit firm's internal quality-control procedures;
 - (2) All relationships between the auditors and the College;
 - (3) Whether rotation of the lead audit partner occurs at least every seven years;
 - (4) Determine whether issuing a request for proposal to multiple firms would be in the best interest of the College in any given year.

2. Financial Reporting and Risk Assessment

- a. In consultation with the independent auditors and management, review the integrity of the College's financial reporting processes, considering:
 - (1) Critical accounting policies and practices used by the College;
 - (2) Significant financial reporting issues and judgments made in connection with the preparation of the financial statements;
 - (3) Major issues regarding accounting principles and financial statement presentations, including any significant changes in the College's selection or application of accounting principles; and
 - (4) Major issues as to the adequacy of the College's internal controls designed to provide reasonable assurance that assets are safeguarded, that prescribed policies and procedures are followed, and that transactions are properly recorded and reported.
- b. Accept the outside auditor's reports on the financial statements and federal programs, on the Board's behalf.
- c. Review the auditor's "management letter" and management's response to any weaknesses identified.
- d. Review periodically the effect of regulatory and accounting initiatives on the financial statements of the College.
- e. Discuss with management and the independent auditors the College's guidelines, policies and management approach regarding major financial risk exposures and the steps management has taken to monitor and control such exposures. If the Subcommittee believes that steps taken are not sufficient, it shall direct management to take further action to resolve any issues.

3. Reports and Subcommittee Records

- a. Report regularly to the Finance and Budget Committee of the Board of Trustees on findings regarding the quality and integrity of the College's financial statements, the College's compliance with legal or regulatory requirements relating to financial matters, the engagement, performance, and independence of the College's independent auditors, the decision about appointing external auditors, and on such other matters as are relevant to the Subcommittee's discharge of its responsibilities.

- b. Maintain minutes or other records of meetings and activities of the Subcommittee.

V. Annual Evaluation of Roles and Responsibilities:

The Subcommittee shall review and reassess, at least annually, the adequacy of this charter and recommend to the Finance and Budget Committee of the Board of Trustees any improvements that the Subcommittee considers necessary or valuable.