

Audits

EXTERNAL FINANCIAL AUDITS

By November 1, the Board shall oversee an annual audit of the financial dealings of the District and the reporting of key financial performance data in order to ensure fair and accurate reporting to the Board.¹

The Board's financial statements shall be audited by a firm of independent certified public accountants annually. The Superintendent shall recommend for Board approval a CPA firm to conduct annual audits of all accounts under the jurisdiction of the Board. Before any audit is initiated, the Superintendent shall secure the necessary approval from the appropriate state agencies.

The audit report, along with the audited financial statements, shall be presented to the Board. The Superintendent shall be responsible for the distribution of copies of each audit report and financial statements to members of the Board and, appropriate state agencies by the statutory deadline. The Board shall see that actions are taken to respond to significant deficiencies and material weaknesses identified in the audit report.

All audits shall be conducted in compliance with requirements for local school districts established by the State Committee for School District Audits.

~~Internal audits of all school system accounts and business procedures, both centralized and decentralized, shall be conducted as required by the state and as needed to provide an accurate assessment of the status of all funds, records, and reports controlled by employees of the District.~~

EXTERNAL AUDITS OF INVESTMENTS

In connection with the audit of Board funds conducted by an independent certified public accountant, the auditor shall incorporate, as part of his audit procedures, a review of the Board's investment program, including internal controls and procedures, and, to the extent that any material weaknesses are noted, these weaknesses and any recommended changes shall be reported to the Board in accordance with standard auditing procedures.

ADVICE OF THE AUDIT COMMITTEE REGARDING EXTERNAL AUDITS

In accordance with its Board-approved charter, the Audit Committee's primary areas of responsibility include advising the Board on the qualifications, independence, and performance of the independent external auditors.

1. Advise on the reports of the independent external auditors.
2. Advise on the procurement process and selection of the independent external auditors.
3. Evaluate the efforts of the independent external auditor, including the auditor's actual independence and professional qualifications.
4. Advise on the appropriateness of the independent external auditor's engagement plan.

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ADVICE OF THE AUDIT COMMITTEE REGARDING EXTERNAL AUDITS (CONTINUED)

5. Meet privately with the independent external auditor to discuss any matters that – when permitted by the Kentucky Open Meetings Law – may be afforded private consultation.

INTERNAL AUDIT

The mission of Internal Audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit department assists the District in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and internal control.

The Board and Superintendent shall ensure that the internal audit function is executed by qualified individuals led by an Internal Audit Director, in accordance with the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework. Internal audit is an independent, objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the District.

The activities of Internal Audit shall be governed by Board policy and an Internal Audit Charter approved by the Board.

Internal audits of all school system accounts and business procedures, both centralized and decentralized, shall be conducted as required by the state and as needed to provide an accurate assessment of the status of all funds, records, and reports controlled by employees of the District.

INTERNAL AUDIT PLAN

At least annually, the Internal Audit Director shall submit to senior management and the Board the internal audit plan for review and approval. The internal audit plan shall consist of a work schedule as well as budget and resource requirements for the next fiscal year. The Internal Audit Director shall communicate the impact of resource limitations and significant interim changes to senior management and the Board.

The internal audit plan shall be developed based on prioritization of the audit universe using a risk-based methodology, including input of senior management and the Board, and shall take into consideration advice provided to the Internal Audit Director by the Audit Committee. The Internal Audit Director shall review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan shall be communicated to the Superintendent, senior management, and the Board through periodic activity reports.

INTERNAL AUDIT REQUESTS

The Internal Audit Director may conduct any audit he/she/they deem necessary and shall conduct any audit as directed by the Superintendent or the Board.

1. An audit sought by a member of the Superintendent's Cabinet shall be approved and officially requested by the Superintendent.
2. An audit sought by a Board member shall be approved upon an affirmative vote of at least four (4) Board members in an open meeting.

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INTERNAL AUDIT REQUESTS (CONTINUED)

Prior to submission of a formal audit request by the Superintendent or by the Board by affirmative vote, the Cabinet member or a Board member seeking the audit shall initiate the audit request directly with the Internal Audit Director. The requestor shall communicate relevant concerns, objectives, and intended outcomes. In accordance with the Board-approved Audit Committee Charter, the Internal Audit Director, a requesting Board member, or Superintendent may confer with the Audit Committee regarding an audit request.

The Internal Audit Director shall assess the information provided to ensure the Internal Audit Department can complete the audit in a reasonable timeframe based on consideration of:

1. Appropriate independence;
2. Knowledge, skill, and ability; and
3. Available resources and capacity.

If the Internal Audit Director determines that the Internal Audit Department does not have the aforementioned necessary components, the Internal Audit Director shall communicate to the requestor:

1. The additional resources that would be necessary to complete the project;
2. The impact to planned audits or other projects; and
3. If warranted, a description of an alternative to a formal audit in the form of information collection and analysis that could be conducted that is responsive to the Board's interest or concern. Such information collection and analysis shall not be the responsibility of the Internal Audit Department, but shall be conducted by the appropriate division in the District, as with any other information request.

If the Internal Audit Director determines the audit can be completed based on his/her/their assessment, the Internal Audit Director shall provide a preliminary scope and objective for the audit to serve as the basis for the Board vote or the Superintendent's approval;

MANAGEMENT RESPONSES TO INTERNAL AUDITS

The Director of Internal Audit shall provide a draft of an internal audit report and conduct an exit conference with Division Chief(s) responsible for the audited process and the persons responsible for the audited process to discuss the findings and recommendations.

The Division Chief(s) responsible for the audited process shall prepare a formal, written management response to the audit. A management response shall:

1. Respond to all audit recommendations;
2. Indicate whether management agrees or disagrees with each recommendation and provide information to support their position in the event that management disagrees;
3. Outline the specific corrective actions to be taken to address the findings;
4. Provide expected dates for the completion of each corrective action; and
5. Identify the individual or department responsible for implementing each action.

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MANAGEMENT RESPONSE TO INTERNAL AUDITS (CONTINUED)

The Division Chief(s) responsible for the audited process shall submit the written management response to a draft internal audit report within fifteen (15) days of the exit conference and no later than thirty (30) days of receipt of the

draft report. A management response to an investigation conducted by the Internal Audit Department shall be submitted within fifteen (15) days of the investigative deliverable.

If circumstances preclude adherence to the timeline for a management response, the Division Chief(s) responsible for the audited process shall confer with the Director of Internal Audit to a determine a mutually agreed-upon extension.

INTERNAL AUDIT REPORT DISTRIBUTION

As soon as they are both final, an internal audit report and attendant management response shall be distributed to:

1. The Superintendent;
2. Chief of Staff;
3. General Counsel;
4. Chief Financial Officer;
5. Division Chief(s) responsible for the audited process;
6. Person(s) responsible for the audited process;
7. Board members; and
8. Audit Committee members.

The audit report and attendant response shall be placed on the agenda of an open Board meeting, and the Board shall vote to receive the report and response.

REFERENCES:

¹KRS 160.370
702 KAR 003:130; 702 KAR 003:150
KRS 156.255; KRS 156.265
KRS 156.275; KRS 156.285
KRS 160.290
OAG 61-407

Governmental Accounting Standards Board, Statement on Auditing Standards (SAS) No. 112

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