

Audit Committee Meeting

04-17-19

Attendees:

Chris Ennslin
Sharon Holbrook
Dave Osbourne
Lee Ann Watters
Allison Marcum
Lois Brewer Gillespie
Rebecca Riley
Tiffany Davis Williams
Sherry B. Price
Will Nash
Myron Thompson
Daryl Love
Larry Forester
Lindsay Wright
John White
Rodney Jackson
Casondra Jones

Meeting opened by Rodney Jackson

Internal audit update

Focus this year was on activity fund audits and help prepare schools for external audit of school activity funds and improving processes throughout the year. Goal was to meet with school and audit information so by the end of year problems have been corrected before next year's audit.

Get internal controls across the board as same issues are found everywhere.

MCM internal auditors reported that working papers outlining scope to be followed are provided by the internal auditors for the external auditors that following the external auditors their template.

Items of concern - new bookkeepers go thru training but don't fully understand in certain areas what is supposed to done, recommendations have been made in this area. Better documentation with transfers was also recommended.

Internal auditors are working with a couple high schools on issues related to booster documentation, big focus area as external auditors will be looking at that.

Out of the 66 schools in FCPS, external audit will hit 16-17 per year based on the risk assessment. Internal auditors try to fill in the gaps where there is a risk such as Principal concerns, change in bookkeeper, not been audited in the past couple years.

There have been no whistle blower reports related to activity funds

Dave asked were there any gaps in bookkeeper trainings? No. Training was comprehensive and complete, problems are more so a lack of understanding.

FCPS bookkeeper trainers are very familiar with Redbook and are equipped to answer questions at any time.

If Principals know if they have an issue that they can call Tiffany, they've been trained well enough to know if the bookkeeper isn't doing the job correctly.

Bookkeeper training is for Principals and Bookkeepers, however there is information available online for teachers. The issues are more likely to be made by staff who have not sat thru a training (example. Teachers)

Rodney explained, based on a JCPS review from the state, the Superintendent directed all FCPS departments to look at the write-ups. As such, Financial Accounting Benefits Services verified that every staff person (except Custodians) must go thru Redbook training. There are four to five trainings per year above and beyond that for opportunities for principals and bookkeepers.

Dave asked if we know who, in each school, handles school activity books? Rodney responded, "yes, we have a list and are well aware of who is responsible for school activity funds at each school. Dave recommended a keeping list to identify (names and positions) where the issue would be. Management agreed and has a process in place to do so.

Rodney also iterated that It is a requirement to get communication to Instructional chiefs so they know which schools are having issues and that there are priorities that need to be addressed.

Daryl Love introduced new FCPS Board member, Will Nash, to Audit Committee.

Internal Audit updates were all addressed and auditors left the meeting.

The January meeting's focus was on Audit Committee Charter recommendations. Copies of the changes to be made were sent out to the committee with a request for any additional comments or edits; none was sent back to staff. The floor was opened today to anyone wishing to make any final comments or changes.

Daryl had a protocol question, is the Charter sent to the Board for approval. Yes it is

Will Nash requested clarity of the confidentiality agreement, for new members, in regards to the meetings, is the entire meeting confidential or only certain parts? Are the committee meetings open under the open records act? John White answered that it is an open meeting. Within the committee, there is a sub group, evaluation committee that is not subject to the open records act as there may be discussion of evaluations or RFP's per KRS 61.810(n)

The bidding process is confidential; all other meeting topics are open. Further clarification was given that if there was a fraud investigation, however, it would be confidential and a closed session would need to be called by the compliance officer to address that.

Dave had a question about whether there was anything on the hotline that could be discussed. The compliance officer (Ms. Wright) is limited on how much information can be provided, especially if it is a personnel issue. She can give a basic overview. The only time more information can be provided is if the issue is related to a fraud investigation.

Lois had a question, from the Charter, regarding statements specifically External Audit Risk Management, Independence of External Auditors by obtaining statements from the Auditors, where are they found? In the Audit report, which can be found on the FCPS website.

Rodney discussed a request made by Board member Tyler Murphy to consider a change related to the policy. Rodney gave out the original policy as it is now as well as KRS's policies. Dave asked if the policy is an administrative procedure.

John White provided a condensed version of his presentation, that was given to the FCPS Board in January, to the audit committee regarding the auditor selection process. John discussed the difference in policy and procedure. Policy is approved by the Board of Ed to lead the District or Organization toward fulfillment of the mission as used to develop strategies to accomplish goals of the District. Procedures are steps or actions developed by management to meet the desired outcome established by the policy, procedures do not require Board approval. (John's presentation will be found on the FCPS website with the minutes from this meeting)

Board policy adopted provisions under KRS 45A is specifically for School Districts to govern bidding procedures. FCPS follows Kentucky Model Procurement code KRS 45A.380 lists seven different underlying policies A-G, only two are of relative significance to soliciting of the audit services, sections E and F. John read Board policy 04.9 in its entirety.

John discussed section on non-competitive negotiation – this applies only if certain circumstances exist that prevent competitive bidding. John explained that this is not the case in Fayette County because competitive bidding is possible and thus the exception for not bidding is not applicable.

Dave asked if a dollar minimum is set on non-competitive bidding? John explained that we currently still operate at anything over \$20,000 must be bid, but house bill 26 has raised that amount to \$30,000. John stated that the board would have to vote to increase the threshold to \$30,000 instead of \$20,000 if that is the desire of the board.

It was that discussed that current external audit RFP's are issued every 5 years. In 5 years, there are multiple accounting & audit standards are introduced that must to be considered with every RFP that goes out. The RFP process for the bid selection takes about 5 ½ months and is not a boilerplate process because of the changes in accounting & audit standards.

John informed the committee that Kentucky Auditor of Public accounts lists 75 Recommendations, however only two of those apply to FCPS, #1 and #21

It was discussed that the Audit committee and management justification recommendation was that the audit committee of FCPS selected and recommended Strothman and Company to conduct the fiscal year June 30, 2019 audit for the fifth year of the contract. The last competitive bid was in 2015 and Strothman was selected for that as well.

The audit committee believes Strothman to be the most qualified firm to audit or District.

There is no legal, federal or state requirement to rotate audit firms.

It was documented that according to KDE records as of fiscal year 2018, 85 of 174 the Kentucky school districts have used the same audit firm for at least 5 years, 49%.

Rodney informed the committee that audit contracts, even if approved by the board, have to be sent to KDE. KDE requires an explanation from the Finance Director as to why the District has an auditor longer than 5 years. Selected Auditors are not automatically accepted, KDE has the final say. It was noted that using the same firm for longer than 5 years is not uncommon as demonstrated that 49% of the state is currently doing so.

Dave asked if an Audit firm has to qualify to be accepted by KDE? Yes they do. All audit firms are vetted by KDE and has to be on their approved list to be able to perform school district audits.

John reiterated that there is no credible research that rotation of firms is necessary. However, management agrees that rotation of audit partners should be implemented and required.

It was explained that the audit committee voted to recommend to the board to extend the external audit contract. Note: No staff voted. Recommendation was made by board's audit committee. The recommendation by management following the recommendation of the audit committee was to honor the current contract that will extend Strothman to complete their 5-year assignment and subsequently go to bid for a new RFP contract beginning with the 2019-2020 year.

John explained in detail that the AICPA (American Institute of Certified Public Accountants) has consistently been against rotation of auditing firms as it carry's significant costs and possible unintended consequences and has the potential to hinder audit quality. Mandatory rotation undermines the role of the audit committee. There is a significant learning process for new audit firms.

School districts should not rotate auditors just for the sake of rotating auditors, this could result in a less qualified firm performing the audit. Best practices discourage audit firm rotation.

Daryl states two issues, 1) we shouldn't make it mandatory to rotate firms every 5 years due to the complexity of FCPS, 2) even if we were to keep the same firm then the managing partner needs to be rotated. John interjected that it is important related to not requiring rotation of audit firms but also we must make clear that all firms proposals must be considered and not excluded.

Dave states that there are not a lot of firms bidding for our contract, larger firms do not see the value in it and a small firm is not ideal due to the complexity.

Dave asked shouldn't we be addressing the KRS Model Procurement Act in our references, at least KRS45.380? Daryl responded that Tyler's draft was presented at the board meeting but no action was taken and Will stated that Manny was charged with pursue with KSBA, and board member Ray Daniels requested that we also get consultation from the audit committee on the policy.

Rodney starts discussion of handout KRS 61.878 related to inspection and 61.810 Exemption to Open meetings (n) meetings of any open meetings selection committee and to protect the *validity of the committee* or other similar committee assignments selected related to sensitive data for awarded contracts.

There was additional conversation about the penalty for violation of Model Procurement 45A. 990, 1-5 and 8 & 9 criminal penalties for violations of laws in their existence shall not be impaired?

Dave asked should we go back to our charter and reference 61.810 (n). Yes, under the confidentiality or meeting section. When talking about open meetings and confidentiality. 61.810 (n) and possibly (c) or just include the whole thing

Per Dave's recommendation, Rodney will be adding 61.810 under the meeting section of audit charter then send final minutes.

Will had a question about the complexity of internal audit and external audit. It feels like it is less significant to switch from MCM to Dean Dorton for Internal but a strong case was made for the external audit. What is the difference? Dave explained that Internal audit starts with a clean slate as people and systems change so internal audit it is much less comprehensive than the financial audit that has to be done under a lot of rules and regulations and has to cover the entirety of the organization. External looks a financial statements as a whole and is much more complex rules to comply with requirements.

Rodney added that all complaints go thru the Compliance office - Lindsay's office to be filtered to a specific department, they do not come to John or himself.

John had a comment about firms rotating off every 5 years is inappropriate since we are not in a non-competitive environment. To discount a firm just because they have done it in the past they would not be considered is in conflict with Kentucky Model Procurement. It is like saying DW Wilburn should not be allowed to bid on a construction contract because they built the last school.

We as a district are required to comply with KRS 45a and should be in our charter reference.

Suggested to go back and look at the board policy and language, with stipulations on the managing partner being rotated every 5 years as a recommendation.

It was stated by board member Love that the majority of the school board agrees that we should not rotate firms every 5 years.

We can request that the managing partner be rotated. Rodney informed the committee that it should be noted that Strotman's managing partner would be Jena Jones this year and thus Strothman has agreed to rotate the partner.

John reiterated excluding firms from bidding is against KY Model Procurement policy.

Dave had a question regarding what Tyler Murphy's objection was to having the same firm, was it an independence objectivity issue? Will Nash stated that would be a question for Tyler.

Will suggested that he feels Tyler would be open to a conversation about it.

Will also stated that in his opinion the flow of information to the board was confusing and contradictory at times, there was conflicting information. He also states he can't understand why, given all the reasons John has laid out, it's not a good idea not to change firms and asked does the State committee on School District Audits recommend it.

Dave responded that he is concerned that the wording will scare off firms such as Strothman with the rotation of 5 years talk.

Will states this has him wondering why more firms are not bidding, what it is that we are doing process wise that is discouraging them from bidding. The Committee members feel its economics; there is no money in it for some firms. Board member Love stated he reached out to JCPS board and asked about their process and found out that several firms do not want to touch it or bid on it. Discussion from the committee agreed that that is probably because of their size and complexity. Thus, the economics also of it does not make sense to many firms. Jefferson is about two and half times the size of Fayette.

Will feels spending more money in addition to what we are already spending on an external audit to attract some other firms is worth the expense (speaking only for himself not the board). Daryl made the rebuttal that its also additional cost of the administrative cost to staff not valued in actual dollars just too onboard, more staff.

Rodney provided a point of clarification that the External audit is not limited on the amount a firm can bid on an audit. The Internal audit however does have a budgeted limit. The Internal audit the board has an approved \$100,000 budget. The external audit is based on what it cost to complete the contract.

Rodney further stated that KDE most likely would question a significant increase in dollar amount from one year to the next, if a bid is too high as compared to the previous year.

More discussion continued and the committee unanimously agreed to proceed with removing wording rotates firm every 5 years and having an addition of the wording rotation of managing partner every 5 years. Recommendation also made the audit committee will review annually the firms work and the managing partner's oversight. The committee also recommended referencing KRS45A and again reiterated wording in red should be removed.

It was suggested by Lois that she feels that current audit policy 04.9 is adequate, without the red. The policy should not incorporate language related to procedure. No changes to 04.9 except to include KRS45 references. The policy should be as clean as possible. Procedure is where changes if any should be reflected.

What does the board expect out of the policy? This is only one board members recommendation; normally board members do not draft policy. Instead, staff or something that KSBA recommends what should be adopted is used. Committee agreed and suggested to do it from the Administrative procedure level and the policy should not change.

The committee further suggested that at a minimum we should address going forward with rotation of managing partner and also have a stipulation that if we see the managing partner is not behaving correctly over that 5 year period the committee can make a recommendation that partner be changed.

Rodney stated that in other business based on the updated charter proposal related to attendance we may need a Principal, certified staff, and PTA representation on the committee. Rodney stated that he would follow up with the current principal on the committee and the instructional chiefs for a recommendation for principal and certified staff. Additionally, he would reach out the PTA.

The committee was informed that the next meeting would be July 17 at 9:30 am. The meeting was adjourned at 11:17 am.

Minutes respectfully submitted by Casondra Jones

Fayette County Public Schools Audit Committee Charter
(Suggested edits January 16, 2019)

PURPOSE

The purpose of the audit committee is to assist the Fayette County Public Schools Board (The Board) in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the district's process for monitoring compliance with laws and regulations and the code of conduct.

AUTHORITY

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Assist in appointing and oversight of the work of any registered public accounting firm employed by Fayette County Public Schools.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Pre-approve all audits, auditing and non-auditing services of financial related nature.
- Review any independent counsel, accountants, or other consultants of financial related nature hired to advise the committee or assist in the conduct of an investigation.
- Request any information it requires from employees through Fayette County Public Schools protocol as directed to cooperate with the committee's requests or external parties.
- Meet with Fayette County Public School officers, staff, external auditors, internal auditors or outside counsel, as necessary.

COMPOSITION

The audit committee will consist of at least one and no more than two members of the Board of Education. The nomination committee will appoint committee members and update the committee charter to be reported to the Board as applicable.

Each committee member will be both independent and financially literate. At least one member shall be designated as the "financial expert," as defined by applicable legislation and regulation. There will be 10 to 12 members on the committee. The membership composition shall consist of at least 1 but no more than 2 Board members, 1 Equity Council Representative, 1 School administrator (Principal), 1 Classified Staff Representative, 1 Certified Staff Representative, at least 3 but no more than 4 community Representatives, 1 16th District PTA Representative, District Compliance Officer (non-voting) and Chief Financial Officer (non-voting). The committee shall vote on Audit Committee Chair and Vice Chair at the January quarterly Audit Committee meeting. The Chair and Vice Chair shall serve a 3-year term from the date elected. In the absence of the Chair, the Vice-Chair will be in charge of the committee.

MEETINGS

The committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting, in person or via tele- or video-conference. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors (see below) and executive sessions. **The meeting agenda will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared and posted in DRAFT form on the district's website prior to the following Audit Committee quarterly meeting. Approved minutes will be posted following the meeting where approval occurs. Each Audit Committee member is required to attend a minimum of three of the five scheduled annual meetings. The meetings are scheduled for January, April, July, October and November. A quorum of the committee shall be 60% attendance of voting members.**

RESPONSIBILITIES

The committee will carry out the following responsibilities:

Financial Statements

- Review 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 with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial statements, and consider whether they are complete **and** consistent with information known to committee members and reflect appropriate accounting principles.
- Review other sections of the annual report and related regulatory filings before **they are released**, and consider the accuracy and completeness of the information.
- Review with management and the external and internal auditors all matters required to be communicated to the committee under **Generally Accepted Auditing Standards, KDE Redbook and Single Audit Requirements of 2CFR 200.**
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- Review interim financial reports with management and the external auditors before filing with regulators, and consider whether they are complete and consistent with the information known to committee members.

INTERNAL CONTROL

- **Understand** the effectiveness of the district's internal control system, including information technology security and control **based on information from management and auditors.**
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, **along** with management's responses.
- **Monitor annually management follow-up related to significant findings and recommendations.**

INTERNAL AUDIT

- Approve the annual audit plan and all major changes to the plan.
- Review the internal audit activity's performance relative to its plan.
- Review the internal auditors work as it relates to the **Development of the Audit Universe and Risk Assessment related to the** internal audit budget, resource plan, activities, and organizational structure of the internal audit function.
- At least once per year, review the performance of the internal auditors and concur with the annual **budget to the internal audit function.**
- On a regular basis, meet separately with the internal auditors to discuss any matters that the committee or internal audit **firm** believes should be discussed privately.

External Audit (Risk Management)

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors, and be informed of final approval on the appointment or discharge of the auditors.
- Review the independence of the external auditors by obtaining statements **from** the auditors on relationships between the auditors and the **school district**, including non-audit **financial related** services, and discussing the relationships with the auditors.
- On a regular basis, meet separately with the external auditors to discuss any matters the committee or auditors believe should be discussed privately.

Compliance

- Review the effectiveness of the District Compliance Hotline to ensure compliance with laws, regulations, and District policies and procedures. Also, review instances of noncompliance and actions taken with the committee to the extent that the findings are not confidential.
- Review the process for communicating the code of conduct to district personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and district legal counsel regarding compliance matters.
- Provide a summary report annually to the committee and subsequently to the FCPS Board concerning regular, internal, whistleblower and special request audits.

Reporting Responsibilities

- Regularly report to the Board about committee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors, and the Board.
- Report annually to **public at large**, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.

Other Responsibilities

- Perform other activities related to this charter as requested by the board of education.
- Institute and oversee special investigations as needed **involving management, which is financial in nature**.
- Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in the charter have been carried out.
- Evaluate the committee's and individual members' **participation** on a regular basis.
- **Each committee member shall sign a confidentiality agreement.**

LIMITATION ON COMMITTEE DUTIES

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits, to determine that FCPS financial statements are complete and accurate or to determine that such statements are in accordance with generally accepted accounting principles. FCPS management is responsible for the preparation of FCPS financial statements in accordance with generally accepted accounting principles and FCPS internal controls. FCPS independent accountants are responsible for the audit work on FCPS financial statements. It is also not the duty of the Committee to conduct investigations or to assure compliance with laws and regulations and FCPS policies and procedures. FCPS management is responsible for compliance with laws and regulations and compliance with FCPS policies and procedures.

Financial Management Responsibility for Financial Reports

The Superintendent, Administrative Services Sr. Director/**CFO**, and Director of Finance must certify that: (a) they have reviewed the report, (b) the report does not contain any misrepresentation, (c) the financial information in the report is fairly presented, (d) they are responsible for “disclosure controls and procedures” (e) they have reported any deficiencies in internal controls and fraud involving management to the audit committee, and (f) they have indicated any material changes in internal controls.

A violation must be knowing and intentional to give rise to liability.

Fayette County Public Schools will comply and ensure that the Superintendent, Administrative Services Sr. Director/**CFO**, and Director of Finance sign a certification statement regarding the annual financial statements (see-attached sample). Additionally, management level financial people should be required to sign off that the information/data submitted to the Financial Management designees of the district are correct and complete. (e.g. Food Service Director or Director of Risk Management & Safety, etc.) The certification should include verification that the reported items are true, to the best of their knowledge.

Financial Management Statement Certification

I hereby certify that:

I have reviewed the financial statements of Fayette County Public Schools of _____ for the year-ended _____.

Based on my knowledge, these financial statements do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.

Based on my knowledge, the financial statements and other financial information included in this report, fairly present, in all material respects, the financial condition, results of operations and cash flows of Fayette County Public Schools_ as of, and for the period ended June 30, 2018_.

Superintendent

Date

Administrative Services Sr. Director (C.F.O.)

Date

Director of Finance (Finance Officer)

Date

**FAYETTE COUNTY PUBLIC SCHOOLS
AUDIT COMMITTEE CONFIDENTIALITY AND CONFLICT OF INTEREST POLICY**

This conflict of interest policy is designed to help audit committee members of Fayette County Public Schools (FCPS):

- understand their responsibilities in protecting confidential and sensitive information shared with the audit committee in the course of fulfilling their responsibilities to FCPS.
- identify situations that present potential conflicts of interest.
- establish a governance framework for addressing potential and actual conflicts of interest.

This policy shall apply when an audit committee member is considering entering into a transaction or agreement that might benefit the member's private interest and would adversely effect.

This policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest principles applicable to public school districts.

Those subject to the **FCPS Audit Committee Confidentiality and Conflict of Interest Policy** should be mindful that the appearance of a possible conflict of interest can be as questionable as the existence of an actual conflict of interest.

Exercising Due Care in Protecting the Interests of FCPS

Confidentiality. Each audit committee member shall exercise due care not to disclose confidential or sensitive information acquired in connection with such status. Furthermore, an audit committee member shall not disclose or use information relating to FCPS business or the personal profit or advantage of the audit committee member, family member, or the audit committee member's business or employer.

Audit Committee Member Independence. To help protect FCPS from potential conflicts of interest, any former employee of FCPS or of any firm which has performed internal or external audit work within the past two fiscal years who wishes to join the audit committee shall be separated from their former employer for a minimum of one year before being eligible to be considered for audit committee membership.

Gifts, Gratuities and Entertainment. An audit committee member should be mindful about accepting any gifts, entertainment or other favors:

- a) From any individual or entity that does or is seeking to do business with FCPS or

- b) Under circumstances where it might be inferred that an action was intended to influence or possibly would influence the audit committee member in the performance of his or her duties. This does not preclude the acceptance of items of nominal or insignificant value (\$25.00 or less), or entertainment of nominal or insignificant value that are not related to any particular transaction or activity of FCPS.

Conflict of Interest Definitions

Financial Interest: A person has a financial interest if the person has, directly or indirectly, through employment, business, investment, or family relationships:

- a) An ownership or investment interest in any entity with which FCPS has a transaction, agreement or arrangement;
- b) A compensation arrangement with FCPS or with any entity or individual with which FCPS has a transaction, agreement or arrangement. Compensation includes direct and indirect remuneration as well as gifts or favors that are not insubstantial;
- c) A potential employment, ownership, or investment interest in, or compensation arrangement with, any entity or individual with which FCPS is negotiating a transaction, agreement or arrangement; or
- d) Serves as a director, officer, key employee, agent, partner, associate, trustee, personal representative, receiver, guardian, custodian, conservator, or other legal representative of, or consultant to an entity or individual that does business with FCPS.

A financial interest is not necessarily a conflict of interest. A person who has a financial interest shall be deemed to have an actual conflict of interest only if the audit committee, after due diligence and deliberation, votes that a conflict of interest exists according to the below **Procedures for Disclosing and Addressing Possible Conflicts of Interest**.

Family Member: A spouse, domestic partner, parent, child, or spouse of a child, brother, sister, or spouse of a brother or sister, of an audit committee member.

Procedures for Disclosing and Addressing Possible Conflicts of Interest

Duty to Disclose: Regarding any possible conflict of interest, an audit committee member shall disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the full audit committee and to senior FCPS financial management personnel.

Determining Whether a Conflict of Interest Exists: After disclosure of the financial interest and all material facts have been provided to the audit committee, and after any discussion with the disclosing audit committee member, he or she shall be recused from the vote and he or she shall leave the meeting while the committee and senior FCPS financial management personnel discusses and votes upon the conflict.

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Evaluating the Potential Conflict of Interest:

- a) A disclosing audit committee member may make a presentation at the meeting, but after the presentation, he or she shall leave the meeting during the discussion of, and the vote on the transaction or arrangement involving the possible conflict of interest.
- b) The audit committee chair may appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.
- c) After exercising due diligence, the audit committee and senior FCPS management personnel shall determine whether FCPS can obtain with reasonable efforts a more advantageous transaction or arrangement from a person or entity that would not give rise to a conflict of interest.
- d) If a more advantageous transaction or arrangement is not reasonably possible under "circumstances not producing a conflict of interest," the audit committee and senior FCPS management personnel shall determine by a majority vote of the disinterested committee members whether the transaction or arrangement is in FCPS' best interest and whether it is fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement.

Violations of the Conflicts of Interest Policy

- a) If the audit committee has reasonable cause to believe a committee member has failed to disclose actual or possible conflicts of interest, it shall inform the individual of the basis for such belief and afford the member an opportunity to explain the alleged failure to disclose.
- b) If, after hearing the member's response and/or after making further investigation, the audit committee determines the individual has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

Records of Conflict of Interest Proceedings

The minutes of the audit committee meeting shall contain:

- a) The names of the persons who disclosed or otherwise were found to have a financial interest in connection with an actual or possible conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the audit committee's decision as to whether a conflict of interest in fact existed.
- b) The names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection with the proceedings.

**Annual Statement of FCPS
Audit Committee Confidentiality and Conflict of Interest Policy Compliance**

Each audit committee member shall annually sign a statement which affirms that the member:

- a) Has received a copy of the Confidentiality and Conflict of Interest Policy,
- b) Has read and agrees to comply with the policy, and
- c) Shall promptly advise the audit committee of any circumstances arising during the year that may create a possible conflict of interest with the mission of FCPS.

New members joining the audit committee shall be required to review the Confidentiality and Conflict of Interest Policy and sign the statement as part of their audit committee orientation.

Policy adopted by FCPS Audit Committee:

Committee Chair

Date

**FCPS Audit Committee Confidentiality and Conflict of Interest Policy
Annual Certification Statement**

Name: _____

Position on Audit Committee: _____

Certification

By signing this form below, I certify that:

1. I have received a copy of the FCPS Audit Committee's Confidentiality and Conflict of Interest Policy;
2. I have read and agree to comply with the policy; and
3. I agree to promptly report in writing to the audit committee any changes in the information reported on this form, or any new information that might result in a possible conflict of interest.

Conflict of Interest Disclosure

Please certify below that you either have nothing to report under the FCPS Audit Committee Confidentiality and Conflict of Interest Policy, or describe below anything you believe could give rise to an actual or possible conflict of interest under the policy:

____ I have nothing to report.

____ I have the following matters to report. Attach additional pages if needed.

I hereby certify that the information set forth above is true and complete to the best of my knowledge.

Signature: _____ Date: _____

Fayette County Public Schools Conflict of Interest Questionnaire

The following questionnaire must be completed annually by all members and affiliates of the Fayette County Public Schools (FCPS). Answers to this questionnaire should relate to relationships that occurred from January 1, 2019 through December 31, 2019. Once you have completed this questionnaire, please sign and date in the space provided and return it to:

Committee Member's name:

Committee Member's Designation Source Title:

Address

Phone

Fax

Email address

1. Are you an officer of an organization that conducts business or has a relationship with Fayette County Public Schools (FCPS)?

Yes _____ No _____

If yes, please define.

2. Have you ever served on the Board of a Business in which FCPS invests?

Yes _____ No _____

If yes, please define.

3. Do you have a family relationship with anyone who has a noted relationship in with FCPS? Family connections include an individual's spouse, parent, child, grandparent, grandchild, great-grandchild, and sibling. The spouses of any children, grandchildren, great-grandchildren, and siblings are considered family relationships as well.

Yes _____ No _____

If yes, please define.

4. Have you participated, directly or indirectly, in any employment agreement, compensation relationship, or any other arrangement/investment opportunity with a third-party vendor doing business with FCPS that has resulted or could result in personal benefit to you?

Yes _____ No _____

If yes, please define.

5. Have you received, directly or indirectly, in any employment, any salary payments, loans, or gifts of any kind or any free service, discounts, or other fees from any person/organization engaged in any transaction with the FCPS?

Yes _____ No _____

If yes, please define

6. Do you share ownership of a business that does business with FCPS? Ownership means a voting power in a corporation, profits interest in a partnership, or beneficial interest in a trust.

Yes _____ No _____

If yes, please define.

Signature _____

Date _____

Print Name _____



External Auditor Selection Process

Applying Kentucky Model Procurement



April 17, 2019

Board Policy versus Administrative Procedure



- “Policy” is approved by the Board of Education to lead the organization (District) toward fulfillment of the Mission
- Policy is used to develop strategies to accomplish organizational goals
- “Procedures” are steps/actions developed by management to meet the desired outcome established by policy
- Procedures do NOT require Board approval

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Board Adoption



- Pursuant to Board Policy 04.32, the Board adopted provisions KRS 45A.345 through 45A.460 of the Kentucky Model Procurement Code to govern bidding procedures.



Soliciting Audit Services



- FCPS follows Kentucky Model Procurement Code, KRS 45A
- KRS 45A.010 lists seven (7) underlying purposes and policies – (a) thru (g) - but two of relative significance are:
 - (e) To insure the fair and equitable treatment of all persons who deal with the procurement system of the Commonwealth;
 - (f) To provide increased economy in state procurement activities by fostering effective competition

FCPS Policy 04.9 – Fiscal Management



- The Board shall obtain auditing services from a CPA firm through competitive negotiations using a request for proposal containing criteria set forth by the appropriate state agencies. Before any audit is initiated, the Superintendent shall secure the necessary approval from the appropriate state agencies. The Superintendent shall be responsible for the distribution of copies of each audit to members of the Board and appropriate state agencies.

FCPS Policy 04.9 - Continued



- All audits shall be conducted in compliance with requirements for local school districts established by the State Committee for School District Audits.
- References:
 - 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
 - GASB SAS No. 112 (communication of Internal Control Related Matters identified in an audit)

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Procedure 04.9 AP.1

Audit Procedures



- Selection of Auditors
- Revised 1.24.2019
- The Board follows a plan of selecting its auditors on a five-year basis. Initial selection of an auditing firm shall be determined through the solicitation of proposals from qualified certified public accounting firms in accordance with the Kentucky Model Procurement Code, KRS 45A.335 et seq., through noncompetitive negotiation in connection with the furnishing of professional services.

Procedure 04.9 AP.1

Continued



- **HOWEVER.....** Noncompetitive negotiation applies ONLY when certain circumstances exist that prevent competitive bidding
- KRS 45A.380 states:
 - A local public agency may contract or purchase through noncompetitive negotiation only when a written determination is made that competition is not feasible and it is further determined in writing by a designee of the local public agency that:
 - (1) An emergency exists that will cause public harm as a result of the delay in competitive procedures;
 - (2) There is a single source within a reasonable geographical area of the product or service to be procured;

Procedure 04.9 AP.1

Continued



- KRS 45A.380 – continued

(3) The contract is for the services of a licensed professional, such as attorney, physician, psychiatrist, psychologist, certified public accountant, registered nurse, or educational specialist; a technician such as a plumber, electrician, carpenter, or mechanic; or an artist such as a sculptor, aesthetic painter, or musician, provided, however, that this provision shall not apply to architects or engineers providing construction management services rather than professional architect or engineer services;

(4) through (12)(b) list other instances that have nothing to do with procuring professional audit services.

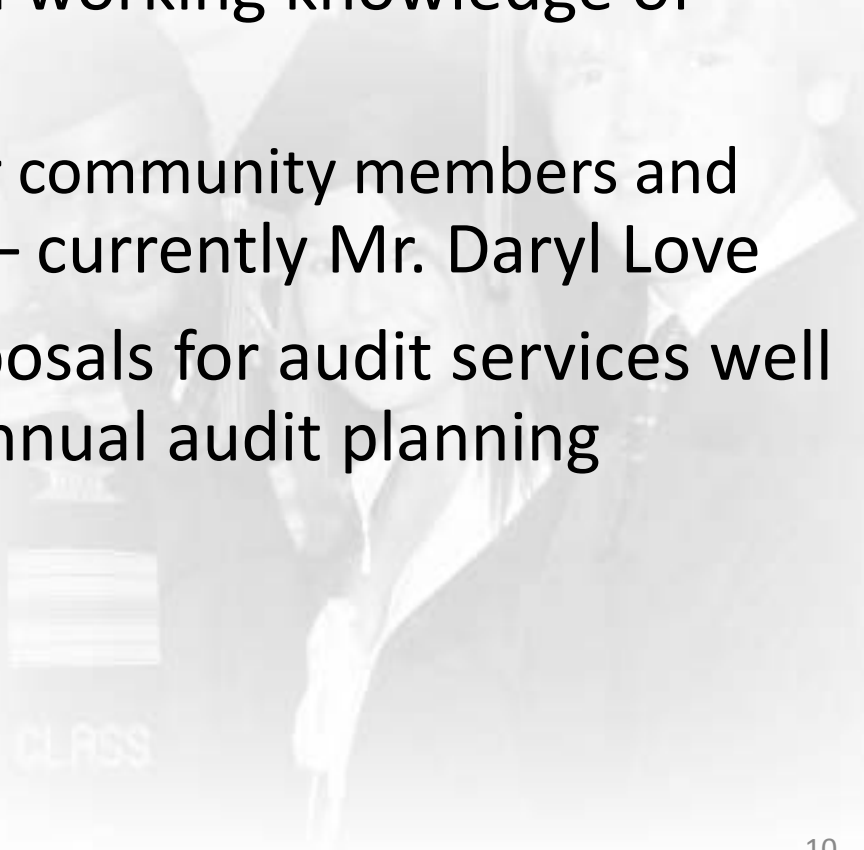
- None of the circumstances listed above, or that are listed within KRS 45A.380, are applicable to FCPS to prevent competitive bidding when soliciting proposals from qualified CPA firms to conduct our external financial audit. The Kentucky Auditor of Public Accounts, in his “Recommendations for Kentucky School Districts” also advises in favor of bidding out even if section (3) above applies.

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Auditor Selection Process



- Utilizes an Audit Committee comprised of several members who possess a working knowledge of financial matters
- Includes several volunteer community members and one FCPS Board member – currently Mr. Daryl Love
- Issues Requests for Proposals for audit services well in advance before the annual audit planning process begins



Auditor Selection Process - Continued



- The Request for Proposal (RFP) is issued every five years to enter into a contract
- The RFP is NOT boiler plate – requires significant updates each time it's issued
- The RFP states the selected firm and its employees who will work on the engagement must have specific skills, knowledge and experience specifically related to public school board audits
- Audit team members must have at least two (2) full years' experience auditing School Activity Funds

External Auditor Selection Process to meet May 28 KDE Deadline



- Audit committee voted unanimously on Wednesday October 17, 2018 to recommend to the Board an extension of the external audit contract with Strothman and Company for the 5th year of the 5 year contract
- Purchasing Department was contacted Monday, October 22, 2018 of recommendations from the Audit Committee
- Purchasing Department will provide a timeline for the external audit by July 1st
- By September 1, 2019, an RFP for External Audit services will be submitted to the Purchasing Office for posting to economic engine (2 months)
- September 15, 2019 – Advertise bid (2 weeks)
- October 1, 2019 – All questions submitted to management for answers related to RFP (2 weeks)
- October 16, 2019 - Audit Committee meets and all answers from management sent to all firms (2 weeks)
- November 1, 2019 – Bid due date (2 weeks)
- November 4, 2019 –Audit Committee Meeting
- November 5th – 25th, 2019 – evaluations (3 weeks)
- December 17, 2019 Board approval (3 weeks) **(Approximately 5.5 months process total timeline)**
- May 2020 - contract start date and preliminary audit meeting with firm selected through the competitive bid process
- May 28 – submit auditor selection to KDE

Audit Committee



- Audit Committee discusses and reviews bids and proposals received from qualified CPA firms who desire to perform the annual financial audit
- Each bid is scored based on qualifying criteria stated in our RFP
- Selection is not purely economic – low bid does not always win
- Auditor experience and subject matter expertise are critical to perform a high quality audit

Internal Auditor Selection Timeline



- Audit committee voted unanimously Wednesday October 17, 2018 to solicit bids for an Internal Audit firm
- Purchasing Department was notified Monday October 22, 2018 of recommendations of Audit Committee
- October 31, 2018 - timeline provided for Internal audit
- January 11, 2019 - RFP drafted for Internal Audit with edits submitted to Purchasing Office for posting to economic engine
- February 1, 2019 – Advertise bid
- February 22, 2019 – Bid due date
- February 23 - March 15 – evaluations
- March 25, 2019 - Board approval (**Approximately 5.5 months total timeline**)
- July 1, 2019 - contract start date

Kentucky Auditor of Public Accounts



- The Kentucky Auditor of Public Accounts lists on their website 75 recommendations for Kentucky School Districts
- Recommendation #1 states:
 - We recommend the Board consider establishing a committee structure that may include finance/budget, policy, audit, technology, or other committees, as necessary. Committees would assist the Board in strengthening its oversight of these important areas.
- Recommendation #21 states:
 - We recommend the Board adopt the Kentucky Model Procurement Code and follow KRS 45A.385 for small purchases. This policy should require procurements in excess of \$20,000 to be competitively procured to ensure the best and most economical selection is made.
- *Source:*
<https://auditor.ky.gov/cpatools/Pages/RecommendationsforKentuckySchoolDistricts.aspx>

Audit Committee & Management Justification



- Management and the Audit Committee of Fayette County School District selected and recommended to the Board Strothman and Company to conduct the audit for the fiscal year ended June 30, 2019.
- We last issued a request for proposal for audit services through competitive bid in 2015, in which Strothman and Company was the successful bidder.
- We have historically issued a request for proposal for audit services every five years.

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Audit Committee & Management Justification



- We used Strothman and Company as our auditors prior to 2015, but determined that rotation of audit firms was not needed for various reasons under the direction and leadership of the previous FCPS Board Chair, **John Price, who was a practicing C.P.A. with his own firm and served on the Audit Committee.**
- The Audit committee, which includes Board Member Love unanimously voted to recommend to the Board to extend the external audit contract for the 5th year per the terms within the RFP. Please **NOTE: Staff did not have a vote.**
- The Audit Committee believes Strothman and Company is the most qualified firm to audit our District. In addition to performing our audit, Strothman and Company also performs audits for other large Kentucky school districts including **Jefferson County, Warren County, Kenton County and Oldham County. Additionally, they also audit Lexington Fayette Urban County Government.**

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Audit Committee & Management Justification



- **There is no legal requirement to rotate audit firms or audit partners. There is no federal or Kentucky requirement to rotate audit firms for any type of public, private or governmental entity.**

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- **According to information provided by KDE as of the 2018 Fiscal year audit: 85 out of 174 Kentucky school districts, approximately 49%, have used the same auditors for at least 5 years.**
- **86 if you include Hancock County, who have used the same firm for 5 years or more but the firm's name changed by adding a new partner.**

K.D.E. Approval & Justification



- KDE approved the audit contracts and our selection of auditor annually, including but not limited to same auditors for last 5 years or more.

Fiscal Year	School District	Auditor	Same Auditor For Last 5 Fiscal Years	Reason for Same Auditor
2013-2014	165 Fayette County	Strothman & Company	TRUE	Strothman & Company does other large districts. They are professional, objective and independent with our audit.
2014-2015	165 Fayette County	Strothman & Company	TRUE	We went to bid this year and they won the competitive bid contract. It is not an extension but a new audit contract.
2015-2016	165 Fayette County	Strothman & Company	TRUE	We went to bid last year and Strothman & Company won the bid again for a term of 5 years with the understanding that the Managing Partner will be rotated. They submitted the best bid based on the rating system in the bid/rfp.
2016-2017	165 Fayette County	Strothman & Company	TRUE	Our Budget/Finance Committee under the direction of our board chair at the time who is a C.P.A. In 2015 fiscal year, the committee, which includes board members, asked the board to rebid the external audit services and Strothman & Co. won competitive bid
2017-2018	165 Fayette County	Strothman & Company	TRUE	This firm was chosen again after a competitive bid process. After winning the bid, the district requested change in managing partner of the firm to oversee the audit process. This is a best practice.

Audit Committee & Management Justification



Fiscal Year	School District	Auditor	Same Auditor For Last 5 Fiscal Years
2017-2018	001 Adair County	Mather & Company CPAs	TRUE
2017-2018	005 Allen County	Goodman & Weber	TRUE
2017-2018	012 Ashland Independent	Kelley Galloway Smith Goolsby	TRUE
2017-2018	013 Augusta Independent	Kelley Galloway Smith Goolsby	TRUE
2017-2018	021 Barren County	Campbell, Myers & Rutledge	TRUE
2017-2018	025 Bath County	Kelley Galloway Smith Goolsby	TRUE
2017-2018	042 Bowling Green Independent	Carr, Riggs & Ingram	TRUE
2017-2018	045 Boyd County	Kelley Galloway Smith Goolsby	TRUE
2017-2018	055 Bracken County	Denise M. Keene - Georgetown	TRUE
2017-2018	061 Breathitt County	Cloyd & Associates - Corbin	TRUE
2017-2018	071 Bullitt County	Stiles, Carter & Associates, CPA's	TRUE
2017-2018	075 Butler County	Carr, Riggs & Ingram	TRUE
2017-2018	085 Calloway County	Alexander Thompson Arnold	TRUE
2017-2018	092 Campbellsville Independent	Wise, Buckner, Spowles & Associates	TRUE
2017-2018	095 Carlisle County	Williams, Williams & Lentz	TRUE
2017-2018	111 Casey County	Stiles, Carter & Associates, CPA's	TRUE
2017-2018	121 Clark County	Summers, McCrary & Sparks	TRUE
2017-2018	125 Clay County	Cloyd & Associates - London	TRUE

Audit Committee & Management Justification



2017-2018	145 Daviess County	Riney, Hancock & Company	TRUE
2017-2018	147 Dayton Independent	Barnes Dennig & Co, Ltd.	TRUE
2017-2018	149 East Bernstadt Independent	Cloyd & Associates - Corbin	TRUE
2017-2018	151 Edmonson County	Carr, Riggs & Ingram	TRUE
2017-2018	152 Elizabethtown Independent	Stiles, Carter & Associates, CPA's	TRUE
2017-2018	155 Elliott County	White & Associates	TRUE
2017-2018	157 Erlanger-Elsmere Independent	Van Gorder, Walker & Co., Inc.	TRUE
2017-2018	165 Fayette County	Strothman & Company	TRUE
2017-2018	171 Fleming County	Kelley Galloway Smith Goolsby	TRUE
2017-2018	185 Fulton County	Alexander Thompson Arnold	TRUE
2017-2018	186 Fulton Independent	Alexander Thompson Arnold	TRUE
2017-2018	197 Glasgow Independent	Campbell, Myers & Rutledge	TRUE
2017-2018	201 Grant County	Barnes Dennig & Co, Ltd.	TRUE
2017-2018	221 Greenup County	The Fyffe Jones Group	TRUE
2017-2018	225 Hancock County	Mather & Company CPAs	TRUE
2017-2018	231 Hardin County	Stiles, Carter & Associates, CPA's	TRUE
2017-2018	235 Harlan County	White & Associates	TRUE
2017-2018	245 Hart County	Stiles, Carter & Associates, CPA's	TRUE
2017-2018	246 Hazard Independent	Cloyd & Associates - Corbin	TRUE
2017-2018	261 Hickman County	Alexander Thompson Arnold	TRUE

Audit Committee & Management Justification



2017-2018	271 Jackson County	Cloyd & Associates - London	TRUE
2017-2018	272 Jackson Independent	Summers, McCrary & Sparks	TRUE
2017-2018	275 Jefferson County	Strothman & Company	TRUE
2017-2018	276 Jenkins Independent	Cloyd & Associates - Corbin	TRUE
2017-2018	285 Johnson County	Wells & Company	TRUE
2017-2018	295 Knott County	White & Associates	TRUE
2017-2018	301 Knox County	Cloyd & Associates - London	TRUE
2017-2018	311 Laurel County	Cloyd & Associates - London	TRUE
2017-2018	321 Lee County	White & Associates	TRUE
2017-2018	325 Leslie County	Chris Gooch	TRUE
2017-2018	331 Letcher County	White & Associates	TRUE
2017-2018	345 Livingston County	Kim Ham	TRUE
2017-2018	351 Logan County	Carr, Riggs & Ingram	TRUE
2017-2018	365 Madison County	Stiles, Carter & Associates, CPA's	TRUE
2017-2018	381 Marshall County	Kim Ham	TRUE
2017-2018	392 Mayfield Independent	Kim Ham	TRUE
2017-2018	395 McCracken County	Kemper CPA Group	TRUE
2017-2018	401 McCreary County	White & Associates	TRUE
2017-2018	405 McLean County	Alford, Nance, Jones, & Oakley, LLP	TRUE
2017-2018	421 Mercer County	White & Company, PSC	TRUE
2017-2018	425 Metcalfe County	Wise, Buckner, Sprowles & Associates	TRUE
2017-2018	431 Monroe County	Goodman & Weber	TRUE

Audit Committee & Management Justification



2017-2018	452 Newport Independent	Barnes Dennig & Co, Ltd.	TRUE
2017-2018	461 Ohio County	Alexander & Company CPAs	TRUE
2017-2018	475 Owsley County	White & Associates	TRUE
2017-2018	476 Paducah Independent	Williams, Williams & Lentz	TRUE
2017-2018	477 Paintsville Independent	Wells & Company	TRUE
2017-2018	485 Perry County	Chris Gooch	TRUE
2017-2018	492 Pikeville Independent	White & Associates	TRUE
2017-2018	502 Raceland Independent	Kelley Galloway Smith Goolsby	TRUE
2017-2018	505 Robertson County	Denise M. Keene - Georgetown	TRUE
2017-2018	515 Rowan County	Kelley Galloway Smith Goolsby	TRUE
2017-2018	522 Russell Independent	Kelley Galloway Smith Goolsby	TRUE
2017-2018	523 Russellville Independent	Carr, Riggs & Ingram	TRUE
2017-2018	524 Science Hill Independent	Barry D. Daulton	TRUE
2017-2018	535 Simpson County	Stiles, Carter & Associates, CPA's	TRUE
2017-2018	537 Southgate Independent	Maddox & Associates CPAs, Inc.	TRUE
2017-2018	545 Taylor County	Wise, Buckner, Sprowles & Associates	TRUE
2017-2018	551 Todd County	Carr, Riggs & Ingram	TRUE
2017-2018	565 Union County	Alford, Nance, Jones, & Oakley, LLP	TRUE
2017-2018	571 Warren County	Strothman & Company	TRUE
2017-2018	575 Washington County	White & Associates	TRUE
2017-2018	581 Wayne County	Barry D. Daulton	TRUE
2017-2018	586 West Point Independent	Stephens & Lawson PSC	TRUE
2017-2018	591 Whitley County	Marr, Miller & Myers	TRUE
2017-2018	592 Williamsburg Independent	Barry D. Daulton	TRUE
2017-2018	593 Williamstown Independent	Denise M. Keene - Georgetown	TRUE

Audit Committee & Management Justification continued.....



- *Mandatory rotation undermines role of audit committee*
 - Mandatory firm rotation may have the unintended consequence of undermining the role of the audit committee. The Sarbanes-Oxley Act (“SOX”) assigned responsibility to independent audit committees for overseeing the financial reporting process, including the hiring and firing of the external auditor. However, mandatory rotation could prevent the audit committee from selecting and retaining the most qualified audit firm to perform the company’s audit. Since the audit committee is responsible for the selection and oversight of the audit firm, the audit committee should be able to use its discretion and judgment when determining which audit firm is best suited to perform the company’s audit. In determining which firm is most capable, the audit committee should consider a number of factors and arguably, firm tenure should be one such factor. Other important factors include the qualifications and reputation of the audit firm, industry experience, and reasonableness of the audit plan. The audit committee is also in the best position to evaluate the quality of the audit and assess the independence and objectivity of the auditor. Clearly, this should be an important factor considered by the audit committee when determining if reappointment of the auditor is appropriate.
 - Mandatory rotation could limit the audit committee’s choice of audit firms and therefore, hinder its ability to select or reappoint the audit firm that can perform the highest quality audit in the most efficient and effective manner. This result could be exacerbated in situations where the company is in a specialized industry with a limited number of firms who have sufficient industry expertise or where the company is located in a geographical area with a limited number of audit firms available to perform the audit.

Audit Committee & Management Justification Recommendation...continued



- It is also important to note that the audit committee (which includes a board member) reviews the RFP's and voted to recommend to the Board to extend the external audit contract. This is not a decision made strictly by staff. It is a recommendation from the board's audit committee. This current bid ends after the 2018-2019 audit.
- Management recommends honoring the current contract and the recommendation of the audit committee to extend the audit contract for Strothman and Company to complete the 5 year assignment as was designed in the 2015 RFP.
- Management will then issue an RFP to solicit competitive bids for the next 5 year period, with the first audit year being for fiscal year ended June 30, 2020.

American Institute of Certified Public Accountants



- The American Institute of Certified Public Accountants (AICPA) was founded in 1887 and is the national professional organization of CPA's in the United States with more than 431,000 members in 143 countries
- The AICPA sets ethical standards for the profession and US auditing standards for private companies, nonprofit organizations, federal, state and local governments
- The AICPA has consistently been against audit firm rotation, stating it “***carries significant costs and possible unintended consequences that have the potential to hinder audit quality***”.

AICPA Justification continued.....



- In a December 2011 letter to the Public Company Accounting Oversight Board on the subject, it states the following:
- *“Research indicates that mandatory firm rotation may have an adverse impact on audit quality; however, we are not aware of any such credible research that exists demonstrating that firm rotation would significantly improve audit quality. In fact, numerous academic studies indicate that audit quality actually increases with audit firm tenure. Experience and knowledge of the company’s operations and industry are crucial to a high quality audit and such knowledge and experience increases with audit tenure. Academic research has demonstrated that audit quality tends to improve rather than worsen with tenure, providing support to the expectation that there is a significant learning process for the auditor, i.e., an auditor needs time to get to know sufficiently well the business of the client and, consequently, audit quality tends to increase over time.”*

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Kentucky Society of Certified Public Accountants



- The Kentucky Society of Certified Public Accountants (the “Society”), in a letter dated January 2014 from the Chair of the Society’s Governmental Accounting Committee to the Kentucky Auditor of Public Accounts, stated that the Society strongly opposed mandatory audit firm or partner rotation. It stated that:
- *“mandatory auditor rotation would result in increased audit failures, increased startup costs, increased difficulties and timely reporting, loss of institutional knowledge and reduce incentives to improve efficiency and audit quality.”*
- Further, the Society’s letter goes on to say that:
- *“Our problem does not lie with a thoughtful consideration of rotating auditors, but rather*
- *setting forth a policy to rotate auditors simply for the sake of rotating auditors. We do not believe school districts should establish a policy that automatically rotates auditors, which could inadvertently result in a less qualified firm performing the audit.”*

In Summary



- We are not aware of any credible research that exists demonstrating that firm rotation would significantly improve audit quality
- Auditor independence, objectivity and professional skepticism serve as the foundation of a high quality audit
- Best practices discourage audit firm rotation to:
 - Consistently maximize audit efficiency
 - Avoid increased start-up costs
 - Avoid loss of institutional knowledge
 - Avoid reduced incentives to improve efficiency & quality
 - Avoid undermining the Audit Committee