

1. Title

Provision of Audit and Non-Audit Services by External Audit Firms

2. Rule and Regulation

Sec. 1 Audit Services.

1.1 Audit, Compliance, and Management Review Committee's Role. The ACMRC is responsible for contracting with external audit firms for audit services.

1.2 Board Approval. Neither U.T. System nor any of the institutions may engage an external audit firm for audit services unless the contract is authorized through a delegation of authority as provided by *Texas Government Code Section 321.020* and the contract has been approved by the Board in accordance with Section 3 of Regents' *Rules and Regulations*, [Rule 10501](#) concerning contracts requiring Board approval.

1.3 Conflict of Interest Provision. Neither U.T. System nor any of the institutions may engage an external audit firm for audit services unless the contract includes an acceptable conflict of interest provision approved by the Vice Chancellor and General Counsel.

(a) Lead Partner Rotation. The lead (or coordinating) audit partner (having primary responsibility for the audit), or the audit partner responsible for reviewing the audit shall not have performed audit services for the institution(s) in each of the five previous fiscal years.

(b) Hiring Restrictions. Neither U. T. System nor any of the institutions may hire a former or current partner, principal, or professional employee in a key position, as defined in the [Code of Professional Conduct](#) of the American Institute of Certified Public Accountants (AICPA), that would cause a violation of the AICPA [Code of Professional Conduct](#) or other applicable

independence rules, during the year subsequent to the completion of the audit engagement.

Sec. 2 Prohibited Non-Audit Services. Neither U.T. System nor any of the institutions may engage an external audit firm to provide prohibited non-audit services contemporaneously with the provision of audit services.

Sec. 3 Possible Conflicts.

3.1 ACMRC Review and Approval. If the aggregate amount of fees to be paid to an external audit firm for the performance of non-audit services exceeds five percent of the total amount of fees anticipated to be paid to the external audit firm for the performance of audit services provided during any fiscal year in which non-audit services will be provided, then U.T. System and the institutions may not engage the external audit firm to perform the non-audit services unless the proposed engagement is reviewed and approved by the ACMRC.

3.2 Conflict of Interest Not Permitted. If, upon review of a proposed engagement for non-audit services under Subsection 3.1 of this Rule, the ACMRC determines that a conflict of interest exists between the external audit firm's obligations to perform audit services and that firm's anticipated obligations to perform non-audit services contemporaneously with the performance of audit services, then U.T. System and the institutions may not engage the external audit firm to perform the non-audit services.

3. Definitions

ACMRC – refers to the Audit, Compliance, and Management Review Committee of the Board.

Audit Services – are services provided for the purpose of expressing an opinion on the financial statements of U.T. System or any of the institutions.

External Audit Firm – is a public accounting firm (including its partners, employees and agents) engaged by the Board to provide audit services.

Non-Audit Services – any non-audit services (including tax services) that are not listed in the definition of prohibited non-audit services.

Prohibited Non-Audit Services – include:

- a) bookkeeping or other services related to the accounting records or financial statements of U. T. System or any of the institutions;
- b) financial information systems design and implementation;
- c) appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- d) actuarial services;
- e) internal audit outsourcing services;
- f) management functions or human resources;
- g) broker, dealer, investment adviser, or investment banking services;
- h) legal services and expert services unrelated to the audit; and
- i) any other service that the Board determines, by rule, is impermissible.

4. Relevant Federal and State Statutes

Texas Government Code [Section 321.020](#) – Coordination of Certain Audits

5. Relevant System Policies, Procedures, and Forms

None

6. Who Should Know

Administrators
Internal Audit

7. System Administration Office(s) Responsible for Rule

Office of the Controller
Audit Office

8. Dates Approved or Amended

December 10, 2004

9. Contact Information

Questions or comments regarding this rule should be directed to:

- bor@utsystem.edu