

PTI BOARD PAPER NO. 2016-11-02

TITLE: **PTI Board Audit Committee Charter**

PROPOSED ACTION: **For Decision**

EXECUTIVE SUMMARY:

The PTI Board is required, under California's Nonprofit Integrity Act of 2004, to have its financial statements audited on an annual basis by an independent certified public accountant, and to have an Audit Committee. The Audit Committee is required to recommend to the full Board the retention of the Independent Auditor, confer with the auditor about the audited financial statements and the financial affairs of the organization, and if applicable, approve the auditor's performance of any non-audit service to PTI. These are the same legal obligations that apply to ICANN, which has the same corporate form as PTI.

A draft Audit Committee charter for the PTI Board has been drafted based on ICANN's Board Audit Committee Charter.

Upon acceptance of the Audit Committee charter, the PTI Board will also be asked to appoint the members of the PTI Board Audit Committee.

STAFF RECOMMENDATION:

The PTI Board is recommended to approve the proposed Audit Committee Charter. The PTI Board is then recommended to consider the appropriate composition of the Audit Committee.

BACKGROUND:

The PTI Board is required by law to have an Audit Committee. Because ICANN and PTI are subject to the same laws based on having the same corporate form (California Nonprofit Public Benefit Organization operating for charitable purposes), a charter for the PTI Board Audit Committee has been drafted based on ICANN's Audit Committee Charter. The Audit Committee has primary responsibility for recommending to the Board the appointment of the Independent Auditor that will annually audit PTI's financial statements. The Audit Committee will also review the audited financial statements and discuss the audit finding with the Independent Auditor, including considerations of the financial affairs of the

organization. These activities are reflected in the Charter.

When comprised, the Audit Committee shall primarily have independent directors (in this case meaning not having a material financial interest in an entity doing business with the organization), and shall not include senior management of the organization as members. Management and staff, of course, may attend Audit Committee meetings. Experience with reading and understanding financial statements is a desired skill for at least one Audit Committee member, and if no members have the requisite skill, then external financial expertise can be made available. The PTI Bylaws impose an additional requirement on Audit Committee composition, requiring that there be at least one member appointed through the Nominating Committee process and one member that was appointed directly by ICANN. As the PTI Board proceeds with considering the composition of the Audit Committee, it is recommended that Elise Gerich, as PTI's President and general manager, should not be considered for membership.

The PTI Board as a whole may identify the Audit Committee chair, or may leave that decision to the Audit Committee.

PROPOSED RESOLUTION:

Resolved (PTI2016.xx.xx.xx), the PTI Board adopts the PTI Board Audit Committee Charter.

Resolved (PTI2016.xx.xx.xx) the PTI Board appoints the following members to the PTI Board Audit Committee:

- [], [Chair]
- []
- []

PROPOSED RATIONALE:

The PTI Board takes this action today to fulfil PTI's Bylaws and legal obligations. For sound governance, PTI is required to have an Audit Committee. The Audit Committee has primary responsibility for recommending to the Board the appointment of the Independent Auditor

that will annually audit PTI's financial statements. The Audit Committee will also review the audited financial statements and discuss the audit finding with the Independent Auditor, including considerations of the financial affairs of the organization. Because ICANN and PTI are subject to the same laws based on having the same corporate form (California Nonprofit Public Benefit Organization operating for charitable purposes), a charter for the PTI Board Audit Committee has been drafted based on ICANN's Audit Committee Charter.

This action does not impact the security, stability or resiliency of the Internet DNS. There are no impacts on the financial resources of PTI as a result of this action; instead it is a key action to support healthy financial controls.

Signature Block:

Submitted by: Samantha Eisner

Position: PTI Secretary

Date Noted: 27 October 2016

Email: Samantha.eisner@icann.org

PTI Audit Committee Charter

I. Purpose

The Audit Committee (“Committee”) of the Board of Directors (“Board”) of Public Technical Identifiers (“PTI”) is responsible for:

- A. Recommending the selection of independent auditors to the Board;
- B. Receiving and reviewing status reports from independent auditors as required and recommended.
- C. Receiving, reviewing and forwarding to the Board the annual financial report of PTI’s operations and financial position, the related footnotes, and the accompanying independent auditors’ report.
- D. Overseeing PTI’s internal financial and accounting controls and procedures, which are designed to promote compliance with accounting standards, and applicable laws and regulations.

II. Scope of Responsibilities

- A. Recommending the selection of independent auditors to the Board.
 - 1. The Committee will recommend to the Board of Directors the selection of PTI’s independent auditors and the annual fees to be paid for services rendered by the independent auditors.
 - 2. The Committee will review the proposed audit plan(s) developed the independent auditors.
 - 3. The Committee will periodically review the performance, qualifications and independence of the independent auditors, and recommend to the Board any proposed retention or discharge of the independent auditors.
- B. Receiving and reviewing status reports from independent auditors as required and recommended.
- C. Receiving, reviewing and forwarding to the Board the annual financial report of the independent auditors.
 - 1. The Committee will review PTI’s annual financial statements and reports as required by law and PTI’s Bylaws.

2. The Committee will review and discuss the required communication from the independent auditor in relationship to the reliance on internal controls and the comments on those internal controls, if any.
3. The Committee will forward to the Board and recommend acceptance of PTI's audited annual financial statements and reports and the annual financial management letter of the independent auditors, including Committee comments, if any.

D. Overseeing PTI's internal financial and accounting controls and procedures designed to promote compliance with accounting standards, and applicable laws and regulations.

1. The Committee will periodically review PTI's system of internal financial and accounting controls, including its financial risk assessment and financial risk management policies, including PTI's coordination with its sole member and parent company, Internet Corporation for Assigned Names and Numbers (ICANN), on any relevant insurance coverage obtained for PTI, and make recommendations for changes, if any. The Committee is not empowered to require ICANN to make modifications to its insurance coverage, but may provide recommendations to ICANN on such matters as it relates to coverage for PTI.
2. The Committee will monitor the performance of PTI's accounting and financial reporting process, internal financial controls and financial audits.
3. The Committee will oversee PTI's compliance with generally accepted accounting principles for nonprofit organizations, and with any legal or regulatory requirements related to: (i) PTI's accounting and financial management systems; and (ii) PTI's financial reports.

In addition, the Committee may perform other duties or responsibilities, if any delegated to the Committee by the Board from time to time.

III. Composition

The Committee shall be comprised of at least three but not more than four Board Directors, as determined and appointed annually by the Board, each of whom shall comply with the Conflicts of Interest Policy. The members of the Committee shall serve at the discretion of the Board.

Committee members must, to the extent practicable, be independent Directors of PTI, as determined by the policies and practices of the organization, and must include at least one Director nominated to the Board through the ICANN Nominating Committee. The Committee shall have access to financial expertise, preferably through the inclusion on the Committee of at least one voting Director with the requisite level of financial expertise as deemed acceptable by the Board.

Unless a Committee Chair is appointed by the full Board, the members of the Committee may designate its Chair from among the voting members of the Committee by majority vote of the full Committee membership.

The Committee may choose to organize itself into subcommittees to facilitate the accomplishment of its work. The Committee may seek approval and budget from the Board for the appointment of consultants and advisers to assist in its work as deemed necessary, and such appointees may attend the relevant parts of the Committee meetings.

IV. Meetings

The Committee shall meet at least four times per year, or more frequently as it deems necessary to carry out its responsibilities. The Committee's meetings may be held by telephone and/or other remote meeting technologies. Meetings may be called upon no less than forty-eight (48) hours notice by either (i) the Chair of the Committee or (ii) any two members of the Committee acting together, provided that regularly scheduled meetings generally shall be noticed at least one week in advance.

V. Voting and Quorum

A majority of the voting members of the Committee shall constitute a quorum. Voting on Committee matters shall be on a one vote per member basis. When a quorum is present, the vote of a majority of the voting Committee members present shall constitute the action or decision of the Committee.

VI. Records of Proceedings

A preliminary report with respect to actions taken at each meeting (telephonic or in-person) of the Committee, shall be recorded and distributed to committee members within five working days, and meeting minutes shall be posted promptly following approval by the Committee.

VII. Review

The performance of the Committee shall be reviewed annually and informally by the Board as a whole. The Board shall recommend changes in membership, procedures, or responsibilities and authorities of the Committee if and when deemed appropriate.

The Committee shall also conduct a separate self-evaluation of its performance and produce a report to the full Board regarding any suggestions for changes to this Charter as identified through the self-evaluation process.