



## ADMINISTRATIVE SERVICES DEPARTMENT

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### AUDIT COMMITTEE STAFF REPORT

Meeting: April 27, 2026

#### Subject

Discuss amendments to Audit Committee Duties, Powers, and Responsibilities

#### Recommended Action

Receive the presentation and provide feedback on proposed amendments to the Audit Committee's duties, powers, and responsibilities, including potential changes to meeting frequency and expanded financial oversight.

#### Background

On May 20, 2025, the City Council directed the Audit Committee to consider amendments to its scope of duties and recommend changes for Council's consideration. Following this directive, the Audit Committee engaged in a series of discussions, informed by Government Finance Officers Association (GFOA) best practices and input from the City's internal auditors, Baker Tilly.

During the July 28, 2025, meeting, the Audit Committee unanimously voted to recommend three specific changes to its duties, powers, and responsibilities: (1) renaming the committee as the "Audit and Finance Committee" to reflect its broader oversight role, (2) clarifying Section 2.88.100(g) to ensure clear oversight of the City's internal controls and audit reports, and (3) adding a new provision related to the review of artificial intelligence as it relates to financial management, internal controls, risk, and compliance.

On October 7, 2025, the City Council conducted a study session on the proposed amendments and referred additional items back to the Audit Committee for further consideration, including potential expanded financial oversight responsibilities and meeting frequency. Specifically, Council requested the Audit Committee to consider:

- Increasing the regular meeting frequency from four to up to six meetings per year, with flexibility to cancel meetings if there is no business;
- Expanding the Committee's financial oversight role to include review of the City's operating and capital budgets, long-term financial forecasts, reserve policies, and major financial transactions;
- Considering the establishment of a budget subcommittee; and

- Providing direction that Treasurer's Reports and Investment Reports will be placed on the City Council agenda Consent Calendar for receipt, rather than as informational memoranda. This change has been implemented.

This item returns to the Audit Committee to solicit feedback on these additional considerations prior to returning to City Council for further direction.

### Analysis

The originally proposed amendments are intended to modernize the Committee's scope and align it with evolving best practices in public sector financial oversight. Specifically:

- *Name change*: Renaming the Committee as the "Audit and Finance Committee" signals its role in both financial and audit-related oversight.
- *Section 2.88.100(g)*: Clarifying this section strengthens accountability around the City's system of internal controls while maintaining existing oversight of internal audit reports.
- *Section 2.88.100(i)*: Adding this new duty recognizes the increasing use of artificial intelligence tools in financial reporting, internal controls, risk management, and compliance, and ensures the committee remains equipped to evaluate emerging risks and opportunities.

In addition, based on City Council direction, the Audit Committee is asked to provide input on potential enhancements to its role and structure, including:

- *Meeting Frequency*: Whether increasing the number of regular meetings from four to up to six per year would better support expanded responsibilities, while maintaining flexibility to cancel meetings when there is no business.
- *Expanded Financial Oversight*: Potential responsibilities such as reviewing the City's annual operating and capital budgets prior to Council consideration, monitoring long-term financial forecasts and reserve policies, reviewing periodic financial reports, and evaluating significant budget amendments and financial transactions.
- *Budget Subcommittee*: Whether establishing a subcommittee to review budget content in greater detail would be beneficial to the Committee.

Staff is seeking the Audit Committee's feedback on these items to inform a future recommendation to City Council.

### Next Steps

Following Audit Committee discussion and recommendation(s), staff will refine the proposed amendments to Municipal Code Section 2.88.100, including any changes related to meeting frequency or expanded financial oversight responsibilities, and return to City Council for further consideration.

### Sustainability Impact

No sustainability impacts.

### Fiscal Impact

No fiscal impact.

City Work Program Item/Description

None

City Council Goal

Fiscal Strategy

California Environmental Quality Act

Not applicable.

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Reviewed by: Kirsten Squarcia, Deputy City Manager

Approved for Submission by: Tina Kapoor, City Manager

Attachments:

A – Municipal Code - Chapter 2.88 Audit Committee