

# Sample audit committee charter



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*This sample audit committee charter is based on observations of selected companies and the requirements of the SEC, the NYSE, and NASDAQ. The information presented can and will change; we are under no obligation to update such information<sup>1</sup>.*

*This template is designed for U.S. public companies; exceptions to the requirements noted below may apply for certain issuers, including investment companies, small-business issuers, and foreign private issuers. Many of the items presented here are not applicable to voluntary filers. All companies should consult with legal counsel regarding the applicability and implementation of the various requirements identified.*

## Audit committee of the board of directors—charter

### I. Purpose and authority

The audit committee is established by and among the board of directors for the primary purpose of assisting the board in:

- Overseeing the integrity of the company's financial statements [NYSE Corporate Governance Rule 303A.07(b)(i)(A)] and the company's accounting and financial reporting processes and financial statement audits [NASDAQ Corporate Governance Rule 5605(c)(1)(C)].
- Overseeing the company's compliance with legal and regulatory requirements [NYSE Corporate Governance Rule 303A.7(c)(i)(A)].
- Overseeing the registered public accounting firm's (independent auditor's) qualifications and independence [NYSE Corporate Governance Rule 303A.7(c)(i)(A) and NASDAQ Corporate Governance Rule 5605(c)(1)(b)].
- Overseeing the performance of the company's independent auditor [NYSE Corporate Governance Rule 303A.7(c)(i)(A) and NASDAQ Corporate Governance Rule 5605(c)(1)(b)] and internal audit function [NYSE Corporate Governance Rule 303A.7(c)(i)(A)].
- Overseeing the company's systems of disclosure controls and procedures, internal controls over financial reporting, and compliance with ethical standards adopted by the company.

The audit committee should encourage continuous improvement, and should foster adherence to the company's policies, procedures, and practices at all levels. The audit committee should also provide for open communication among the independent auditor, financial and senior management, the internal audit function, and the board of directors.

The audit committee has the authority to conduct investigations into any matters within its scope of responsibility and obtain advice and assistance from outside legal, accounting, or other advisers, as necessary to perform its duties and responsibilities [Section 10A(m)(5) of the Exchange Act, NYSE Corporate Governance Rule 303A.06, and NASDAQ Corporate Governance Rule 5605(c)(3)].

In carrying out its duties and responsibilities, the audit committee also has the authority to meet with and seek any information it requires from employees, officers, directors, or external parties.

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The company will provide appropriate funding, as determined by the audit committee, for compensation to the independent auditor, to any advisers that the audit committee chooses to engage, and for payment of ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties [Section 10A of the Exchange Act, NYSE Corporate Governance Rule 303A.06, and NASDAQ Corporate Governance Rule 5605(c)(3)].

The audit committee's principal responsibility is one of oversight. The fundamental responsibility for the company's financial statements and disclosures rests with management and the independent auditor [General commentary to NYSE Corporate Governance Rule 303A.07(b)].

## II. Composition and meetings<sup>1</sup>

The audit committee will comprise three or more directors as determined by the board [NYSE Corporate Governance Rules 303A.06 and .07(a) and NASDAQ Corporate Governance Rule 5605(c)(2)(A)].

Committee members will be appointed by the board at the annual organizational meeting of the board to serve until their successors are elected. Unless a chairman is elected by the full board, the members of the committee may designate a chairman by majority vote.

Each audit committee member will meet the applicable standards of independence and the determination of independence will be made by the board and as defined by applicable standards listing [Section 10A of the Exchange Act, NYSE Corporate Governance Rules 303A.06 and .07(a) and NASDAQ Corporate Governance Rule 5605(c)(2)(A)].

All members of the committee must comply with all financial literacy requirements of the securities exchanges on which the company is listed. To help meet these requirements, the audit committee will provide its members with annual continuing education opportunities in financial reporting and other areas relevant to the audit committee<sup>2</sup>. At least one member will qualify as an "audit committee financial expert" as defined by the SEC and determined by the board and appropriate disclosure will be made [Item 407(d)(5) of Regulation S-K, NYSE Corporate Governance Rule 303A.07(a), and NASDAQ Corporate Governance Rule 5605(c)(2)(A)]<sup>3</sup>.

The board will determine that a director's simultaneous service on multiple audit committees will not impair the ability of such member to serve on the audit committee<sup>4</sup>.

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<sup>1</sup> Consideration also should be given to the amount of time members of the audit committee can devote to the role. While there are currently no regulations limiting the number of public-company audit committees on which an individual may serve, some companies have included such limitations in the audit committee charter. Furthermore, the NYSE-required disclosures state: "If an audit committee member simultaneously serves on the audit committee of more than three public companies, the board must determine that such simultaneous service would not impair the ability of such member to effectively serve on the listed company's audit committee and disclose such determination either on or through the listed company's website or in its annual proxy statement, or if the company does not file an annual proxy statement, in its annual report on Form 10-K filed with the SEC."

<sup>2</sup> Although the existence of a continuing education program for the board and audit committee is not a requirement, NYSE Corporate Governance Rule 303A.09 requires companies to adopt and disclose guidelines for corporate governance that address their policies for directors' continuing education.

<sup>3</sup> NYSE Corporate Governance Rule 303A.07(a) requires all audit committee members to be "financially literate" as interpreted by the business judgment of the company's board, or to become financially literate within a reasonable period after being appointed to the committee. In addition, at least one member must have "accounting or related financial management expertise" as interpreted by the board. NASDAQ Corporate Governance Rule 5605(c)(2)(A) requires all audit committee members to be able to read and understand financial statements at the time of their appointment to the committee and requires at least one audit committee member to be "financially sophisticated." The SEC requires an issuer to disclose whether at least one audit committee financial expert serves on the audit committee or whether it does not have an audit committee financial expert serving on its audit committee [Item 407 (d)(5)(i)(A)(1) and (2) of Regulation S-K].

<sup>4</sup> The disclosure requirement of NYSE Corporate Governance Rule 303A.07(a) requires that if an audit committee member simultaneously serves on the audit committees of more than three public companies, the board must determine that such simultaneous service does not impair the ability of such member to effectively serve on the listed company's audit committee and must disclose such determination either on or through the listed company's website, in its annual proxy statement, or, if the listed company does not file an annual proxy statement, in its annual report on Form 10-K filed with the SEC.

The committee will meet at least quarterly, or more frequently as circumstances dictate. The committee chairman will approve the agenda for the committee's meetings and any member may suggest items for consideration. Briefing materials will be provided to the committee as far in advance of meetings as practicable.

Each regularly scheduled meeting will conclude with an executive session of the committee absent members of management. As part of its responsibility to foster open communication, the committee will meet periodically with management, the director of the internal audit function, and the independent auditor in separate private sessions [NYSE Corporate Governance Rule 303A.07(b)(iii)(E)].

### III. Responsibilities and duties

To fulfill its responsibilities and duties, the audit committee will engage in the following activities.

#### Documents/reports/accounting information review

1. Review this charter at least annually and recommend to the board of directors any necessary amendments [NASDAQ Corporate Governance Rule 5605(c)(1)].
2. Meet with management [Item 407(d)(3)(i)(A) of Regulation S-K] and the independent auditor to review and discuss the company's annual financial statements and quarterly financial statements (prior to the company's Form 10-K and 10-Q filings or release of earnings), including the company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" [Item 303 of Regulation S-K and NYSE Corporate Governance Rule 303A.07(b)(iii)(B)] and all internal control reports (or summaries thereof). Review other relevant reports or financial information submitted by the company to any governmental body or the public, including management certifications as required in Item 601(b)(31) of Regulation S-K and relevant reports rendered by the independent auditor (or summaries thereof).
3. Discuss earnings press releases, including the type and presentation of information, paying particular attention to any pro forma or adjusted non-GAAP information. Such discussions may be in general terms (i.e., discussion of the types of information to be disclosed and the type of presentations to be made) [NYSE Corporate Governance Rule 303A.07(b)(iii)(C)].
4. Discuss financial information and earnings guidance provided to analysts and ratings agencies. Such discussions may be in general terms (i.e., discussion of the types of information to be disclosed and the type of presentations to be made) [NYSE Corporate Governance Rule 303A.07(b)(iii)(C)].
5. Review the regular internal reports to management (or summaries thereof) prepared by the internal audit function, as well as management's response.

#### Independent auditor

6. Appoint (and recommend that the board submit for shareholder ratification, if applicable), compensate, retain, and oversee the work performed by the independent auditor retained for the purpose of preparing or issuing an audit report or related work [Section 10A(m)(2) of the Exchange Act, NYSE Corporate Governance Rule 303A.06, and NASDAQ Corporate Governance Rule 5605(c)(3)]. Review the performance and independence of the independent auditor and remove the independent auditor if circumstances warrant. The independent auditor will report directly to the audit committee and the audit committee will oversee the resolution of disagreements between management and the independent auditor if they arise [Section 10A(m)(2) of the Exchange Act].
7. Review and preapprove (which may be pursuant to preapproval policies and procedures<sup>1</sup>) both audit and nonaudit services to be provided by the independent auditor [Section 10A(g) and (h) of the Exchange Act]. The authority to grant preapprovals may be delegated to one or more designated members of the audit committee, whose decisions will be presented to the full audit committee at its next regularly scheduled meeting [Section 10A(i) of the Exchange Act].

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<sup>1</sup> Any policy under which audit or nonaudit services are preapproved needs to be detailed as to the particular services and the audit committee needs to be informed of each service [Rule 2-01(c) of Regulation S-X].

8. Consider whether the auditor's provision of permissible nonaudit services is compatible with the auditor's independence [Rule 2-01(c) of Regulation S-X]. Actively engage in dialogue with the independent auditor with respect to any disclosed relationships or services that may affect the independence and objectivity of the auditor and take appropriate actions to oversee the independence of the independent auditor [NASDAQ Corporate Governance Rule 5605(c)(1)(B)].
9. Discuss with the independent auditor the matters required to be discussed under the standards of the PCAOB [Item 407(d)(3)(i)(B) of Regulation S-K].
10. Review with the independent auditor any problems or difficulties and management's response [NYSE Corporate Governance Rule 303A.7(c)(iii)(F)].
11. Hold timely discussions with the independent auditor regarding the following:
  - All critical accounting policies and practices.
  - All alternative treatments of financial information within generally accepted accounting principles related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.
  - Other material written communications between the independent auditor and management, including, but not limited to, the management letter and schedule of unadjusted differences [Rule 2-07(a)(3) of Regulation S-X].
12. At least annually, obtain and review a report by the independent auditor describing:
  - The independent auditor's internal quality-control procedures [NYSE Corporate Governance Rule 303A.07(b)(iii)(A)].
  - Any material issues raised by the most recent internal quality control review or peer review, or by any inquiry or investigation by governmental or professional authorities within the preceding five years with respect to independent audits carried out by the independent auditor, and any steps taken to deal with such issues [NYSE Corporate Governance Rule 303A.07(b)(iii)(A)].
  - All relationships between the independent auditor and the company [NYSE Corporate Governance Rule 303A.07(b)(iii)(A)], addressing the matters set forth in PCAOB Rule 3526 [Item 407(d)(3)(i)(C) of Regulation S-K].
13. Use this report to evaluate the independent auditor's qualifications, performance, and independence. Further, the committee will review the experience and qualifications of the lead partner each year and determine that all partner rotation requirements, as promulgated by applicable rules and regulations, are executed. The audit committee should present its conclusions to the full board [Commentary to NYSE Corporate Governance rule 303A.07(b)(iii)(A)].
14. Assess whether the independent auditor is consistently demonstrating objectivity and skepticism in the performance of its work.
15. Set policies, consistent with governing laws and regulations, for hiring personnel of the independent auditor [NYSE Corporate Governance Rule 303A.07(b)(iii)(G)]<sup>1</sup>.

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<sup>1</sup> Such policy should take into consideration the one-year "cooling-off period" for individuals in a financial reporting oversight role, such as the CEO, CFO, controller, CAO, or the equivalent, as well as other prohibited relationships under the related rules of the SEC.

## Financial reporting processes, accounting policies, and internal control structure

16. In consultation with the independent auditor and the internal audit function, review the integrity of the company's financial reporting processes (both internal and external).
17. Understand the scope of the independent auditors' review of internal control over financial reporting.
18. Receive and review any disclosure from the company's CEO and CFO made in connection with the certification of the company's quarterly and annual reports filed with the SEC of: a) significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the company's ability to record, process, summarize, and report financial data; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls.
19. Review major issues regarding accounting principles and financial statement presentations, including any significant changes in the company's selection or application of accounting principles; major issues as to the adequacy of the company's internal controls; and any special audit steps adopted in light of material control deficiencies [General commentary to NYSE Corporate Governance Rule 303A.07(b)].
20. Review analyses prepared by management and the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements [General commentary to NYSE Corporate Governance Rule 303A.07(b)].
21. Review the effect of regulatory and accounting initiatives, as well as off-balance-sheet structures, on the financial statements of the company [General commentary to NYSE Corporate Governance Rule 303A.07(b)].
22. Review and approve all related-party transactions, defined as those transactions required to be disclosed under Items 404(a) and (b) of Regulation S-K, NYSE Rule 314.00, and NASDAQ Corporate Governance Rule 5630. Discuss with the independent auditor its evaluation of the company's identification of, accounting for, and disclosure of its relationships with related parties as set forth under the standards of the PCAOB.
23. Establish and oversee procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters, including procedures for confidential, anonymous submissions by company employees regarding questionable accounting or auditing matters [Section 10A(m)(4) of the Exchange Act, NYSE Corporate Governance Rule 303A.06, and NASDAQ Corporate Governance Rule 5605(c)(3)].

## Internal audit<sup>1,2</sup>

24. Review and advise on the selection and removal of the internal audit director.
25. Review the activities and organizational structure of the internal audit function, as well as the qualifications of its personnel.
26. Annually, review and recommend changes (if any) to the internal audit charter.
27. Periodically review, with the internal audit director, any significant difficulties, disagreements with management, or scope restrictions encountered in the course of the function's work.
28. Periodically review, with the independent auditor, the internal audit function's responsibility, budget, and staffing [Commentary to NYSE Corporate Governance Rule 303A.07(b)(iii)(F)].

## Ethical compliance, legal compliance, and risk management<sup>3</sup>

29. Oversee, review, and periodically update the company's code of business conduct and ethics<sup>4</sup> and the company's system to monitor compliance with and enforcement of this code.
30. Review, with the company's counsel, legal compliance and regulatory matters that could have a significant impact on the company's financial statements [Commentary to NYSE Corporate Governance Rule 303A.07(b)(iii)(H)].
31. Discuss policies with respect to risk assessment and risk management, including appropriate guidelines and policies to govern the process, as well as the company's major financial risk exposures and the steps management has undertaken to control them [NYSE Corporate Governance Rule 303A.07(b)(iii)(D)].
32. Consider the risk of management's ability to override the company's internal controls.

## Reporting

33. Report regularly to the board regarding the execution of the audit committee's duties, responsibilities, and activities, as well as any issues encountered and related recommendations [NYSE Corporate Governance Rule 303A.07(b)(iii)(H)].
34. Recommend to the board of directors that the audited financial statements be included in the company's annual report on Form 10-K [Item 407(d)(3)(i)(D) of Regulation S-K].

## Other responsibilities

35. Review, with management, the company's finance function, including its budget, organization, and quality of personnel.
36. Conduct an annual performance assessment relative to the audit committee's purpose, duties, and responsibilities outlined herein [NYSE Corporate Governance Rule 303A.07(b)(ii)].
37. Perform any other activities consistent with this charter, the company's bylaws, and governing laws that the board or audit committee determines are necessary or appropriate.

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1 Though not required, many companies have a process in place by which the internal and independent auditors evaluate each other on an annual basis. Should the audit committee choose to include the responsibility to review any such evaluations, the following language may be used: "Review the results of the annual evaluation of the internal audit function by the independent auditor and the review of the independent auditor by the internal audit function. Recommend improvements as necessary."

2 NYSE Corporate Governance Rule 303A.7(d) requires each listed company to have an internal audit function. The NYSE commentary indicates that this function does not have to be a separate department and may be outsourced if the company chooses. Language regarding the internal audit function should be reviewed and modified, if necessary, to reflect the nature and composition of such function at a given company.

3 The audit committee charter should include the items 30 through 33 if the audit committee, rather than another committee, assumes responsibilities with respect to ethical compliance.

4 NYSE Corporate Governance Rule 303A.10 and NASDAQ Corporate Governance Rule 5610 require listed companies to maintain a code of business conduct and ethics. Although the rules do not require the audit committee to be responsible for establishing, maintaining, and overseeing enforcement of this code, the rules do require the audit committee to oversee legal compliance, which, in many cases, includes the code of conduct.

## Supplement for the 2013 COSO framework

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released an updated version of its *Internal Control—Integrated Framework* in May 2013. Under COSO’s transition guidance, the 2013 framework superseded the original 1992 COSO framework as of December 15, 2014.

The table below lists the role of the board of directors—and, by delegation or regulation, the role of the audit committee—emphasized by the 2013 framework. This COSO supplement contains responsibilities related to the board and audit committee. These are not changes to any of the listing requirements set forth under existing guidance.

### 2013 COSO Framework

Oversight activities of the board	Principle <sup>1</sup>
<b>CONTROL ENVIRONMENT</b>	
Work with management to demonstrate the importance of integrity and ethical values to support the functioning of the system of internal control (i.e., helping to set the tone at the top).	<b>1</b> Demonstrates commitment to integrity and ethical values
Oversee the definition of and apply the standards of conduct of the organization (and ensure that deviations are addressed in a timely manner).	
Oversee management’s design, implementation, and conduct of internal control.	<b>2</b> Exercises oversight responsibility
Commission board oversight effectiveness reviews and address opportunities for improvement (defining and identifying oversight responsibilities); define, maintain, and periodically evaluate the skills and expertise needed among board members.	
Demonstrate the independence of board members from management requirements.	
Exercise fiduciary responsibilities to shareholders or other owners and due care in oversight (e.g., prepare for and attend meetings, review the entity’s financial statements and other disclosures).	
Challenge senior management by asking probing questions about the entity’s plans and performance and require follow-up and corrective actions, as necessary (e.g., questioning transactions that occur repeatedly at the end of interim or annual reporting periods).	
Provide oversight of the structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.	<b>3</b> Establishes structure, authority, and responsibility
Work with management to evaluate competence across the organization and with outsourced service providers in accordance with established policies, practices, and acts to address shortcomings.	<b>4</b> Demonstrates commitment to competence
Work with senior management to develop succession plans.	
Establish expectations and evaluate the performance, integrity, and ethical values of the CEO or equivalent role.	<b>5</b> Enforces accountability
Work with management to establish performance measures, incentives, and rewards appropriate for all levels of the entity that align with the fulfillment of responsibilities.	
Work with management to evaluate and adjust pressures on the board, the audit committee, and management.	

<sup>1</sup> Principle 6 (“specifies suitable objectives”) and principle 13 (“uses relevant information”) are focused on management responsibilities and are excluded from this supplement.

## 2013 COSO Framework

Oversight activities of the board	Principle
<b>RISK ASSESSMENT</b>	
Consider internal and external factors that pose significant risks to the achievement of objectives; identify issues and trends (e.g., sustainability implications of the entity's business operations).	<b>7</b> Identifies and analyzes risk
Challenge management's assessment of risks to the achievement of objectives, including the potential impact of significant changes (e.g., risks associated with entering a new market) and fraud or corruption.	<b>8</b> Assesses fraud risk
Evaluate how proactively the organization assesses risks related to innovations and changes, such as those triggered by new technology or economic and geopolitical shifts.	<b>9</b> Identifies and analyzes significant change
<b>CONTROL ACTIVITIES</b>	
Consider internal and external factors that pose significant risks to the achievement of objectives; identify issues and trends (e.g., sustainability implications of the entity's business operations).	<b>10</b> Selects and develops control activities
	<b>11</b> Selects and develops general controls over technology
	<b>12</b> Deploys through policies and procedures
Oversee senior management in its performance of control activities.	<b>10</b> Selects and develops control activities
	<b>11</b> Selects and develops general controls over technology
	<b>12</b> Deploys through policies and procedures
<b>INFORMATION AND COMMUNICATION</b>	
Communicate direction and tone at the top.	<b>14</b> Communicates internally
Obtain, review, and discuss information relating to the entity's achievement of objectives.	<b>14</b> Communicates internally
	<b>15</b> Communicates externally
Scrutinize information received and present alternative views.	<b>14</b> Communicates internally
	<b>15</b> Communicates externally
Review disclosures to external stakeholders for completeness, relevance, and accuracy.	<b>15</b> Communicates externally
Allow for and address upward communication of issues.	<b>14</b> Communicates internally
	<b>15</b> Communicates externally
<b>MONITORING ACTIVITIES</b>	
Assess and oversee the nature and scope of monitoring activities and management overrides of controls, and management's evaluation and remediation of deficiencies.	<b>16</b> Conducts ongoing and/or separate evaluations
	<b>17</b> Evaluates and communicates deficiencies
Engage with management, internal and external auditors, and others, as appropriate, to evaluate the level of awareness of the entity's strategies, specified objectives, risks, and control implications associated with evolving business, infrastructure, regulations, and other factors.	<b>16</b> Conducts ongoing and/or separate evaluations

## For more information:

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