

Sample audit committee charter

This sample audit committee charter is designed for US public companies based on requirements of the SEC, the NYSE, and Nasdaq as well as observations and leading practices of select companies.¹ It may not address all possible requirements. Each audit committee must be mindful of the specific requirements that apply to its company when developing or amending the committee's charter. This charter template is for informational purposes only.²

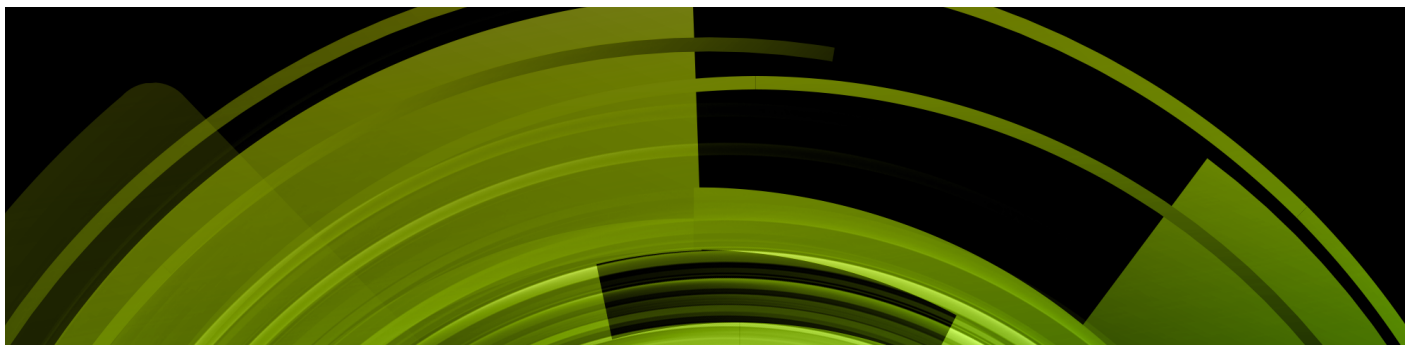
Audit committee of the board of directors—charter

I. Purpose and authority

1. 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.07(b)(i)(A)]**
 - Overseeing the registered public accounting firm's (independent auditor's) qualifications and independence **[NYSE Corporate Governance Rule 303A.07(b)(i)(A) and Nasdaq Corporate Governance Rule 5605(c)(1)(B)]**
 - Overseeing the performance of the company's independent auditor and internal audit function **[NYSE Corporate Governance Rule 303A.07(b)(i)(A)]**
 - Overseeing the company's systems of disclosure controls and procedures
 - Overseeing the company's internal control over financial reporting
 - Overseeing the company's compliance with ethical standards adopted by the company
2. The audit committee has the authority to conduct investigations into any matters within its scope of responsibility and obtain advice and assistance by engaging outside legal, accounting, or other advisers when necessary to perform its duties and responsibilities **[Rule 10A-3(b)(4) of the Exchange Act, NYSE Corporate Governance Rule 303A.06, and Nasdaq Corporate Governance Rule 5605(c)(3)]** and to seek any information it requires from employees, officers, and directors.³
3. 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 **[Rule 10A-3(b) (5) of the Exchange Act, NYSE Corporate Governance Rule 303A.06, and Nasdaq Corporate Governance Rule 5605(c)(3)]**.

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3. NYSE Corporate Governance Rule 303A.09 requires companies to adopt and disclose guidelines for corporate governance that address their policies for directors' access to management and independent advisers.



II. Composition and meetings⁴

4. 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)].
5. Each audit committee member must meet the applicable standards of independence, and the determination of independence will be made by the board as defined by applicable listing standards [Section 10A of the Exchange Act, NYSE Corporate Governance Rules 303A.06 and .07(a), and Nasdaq Corporate Governance Rule 5605(c)(2)(A)].
6. All members of the committee must comply with all financial literacy requirements of each securities exchange on which the company is listed. 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)].⁵ To help maintain compliance with 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.⁶
7. As part of its responsibility to foster open communication, the committee will meet periodically with management, the internal auditor, and the independent auditor in separate executive sessions [NYSE Corporate Governance Rule 303A.07(b) (iii)(E)]. Each regularly scheduled meeting shall include an executive session of the committee without members of management.
8. The board will determine whether a director’s simultaneous service on multiple audit committees will impair the ability of such member to serve on the audit committee.⁷
9. The committee will meet at least quarterly, or more frequently as circumstances dictate. The committee may invite members of management, auditors, the internal audit staff, or others to attend meetings and provide pertinent information, as appropriate. The committee chair 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.

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4. 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, NYSE Corporate Governance Rule 303A.07(a) states: “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.”
5. 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 or not at least one audit committee financial expert serves on the audit committee. It must also disclose the name of the audit committee financial expert and whether that person is independent as defined in the listing standards applicable to the listed issuer. Additionally, if the registrant does not have an audit committee financial expert, it must explain why it does not have one (Item 407(d)(5)(i)(A)(1) and (2) of Regulation S-K).
6. While the existence of a continuing education program for the board and audit committee is not a requirement, the NYSE Corporate Governance Rule 303A.09 requires companies to adopt and disclose guidelines for corporate governance that address their policies for directors’ continuing education.
7. The disclosure requirement of NYSE Corporate Governance Rule 303A.07(a) states 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.



III. Responsibilities and duties

The 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)]. To fulfill its responsibilities and duties, the audit committee will oversee several areas:

Independent auditor

10. Appoint (and recommend that the board submit for shareholder ratification, if applicable), compensate, retain, and oversee the work performed by the independent auditor and any other independent registered public accounting firm retained for the purpose of preparing or issuing an audit report or performing any other related work such as any other audit, review, or attest services for the company. The committee shall also be responsible for the resolution of disagreements between management and the independent auditor regarding financial reporting [Rule 10A-3(b)(2) of the Exchange Act, NYSE Corporate Governance Rule 303A.06, and Nasdaq Corporate Governance Rule 5605(c)(3)].
11. Review the qualifications and independence of the independent auditor and remove the independent auditor if circumstances warrant. The independent auditor will report directly to the audit committee [Rule 10A-3(b)(2) of the Exchange Act, NYSE Corporate Governance Rule 303A.06].
12. 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)].
13. Set policies, consistent with governing laws and regulations, for hiring personnel of the independent auditor [NYSE Corporate Governance Rule 303A.07(b)(iii)(G)].⁸
14. Review and preapprove (which may be pursuant to preapproval policies and procedures⁹) both audit and non-audit services to be provided by the independent auditor [Section 10A(g) and (h) of the Exchange Act]. Consider whether the auditor's provision of permissible non-audit services is compatible with the auditor's independence [Rule 2-01(c) of Regulation S-X]. 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.
15. Obtain a formal written statement delineating all relationships between the auditor and the company. Discuss with the independent auditor any disclosed relationships or services that may affect the independence and objectivity of the auditor and take, or recommend that the full board take appropriate actions to oversee the independence of the independent auditor [Nasdaq Corporate Governance Rule 5605(c)(1)(B)].
16. Discuss with the independent auditor the matters required to be discussed under the standards of the PCAOB including:
 - The independent auditor's responsibilities under generally accepted auditing standards
 - The scope and timing of the audit plan, including the independent auditor's review of internal control over financial reporting
 - Overall audit strategy [Item 407(d)(3)(i)(B) of Regulation S-K]
17. Review with the independent auditor any problems or difficulties encountered during the course of the audit, including any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management, together with management's response [NYSE Corporate Governance Rule 303A.07(b)(iii)(F)].

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8. 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.

9. Any policy under which audit or non-audit 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].

18. Obtain a report from the independent auditor regarding the following:
 - All critical accounting policies and practices [\[Rule 2-07\(a\)\(1\) of Regulation S-X\]](#)
 - 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 [\[Rule 2-07\(a\)\(2\) of Regulation S-X\]](#)
 - 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\]](#)
19. 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 listed company [\[NYSE Corporate Governance Rule 303A.07\(b\)\(iii\)\(A\)\]](#) or its affiliates and the company or individuals in a financial reporting oversight role at the company that may reasonably be thought to bear on independence, addressing the matters set forth in PCAOB Rule 3526 [\[Item 407\(d\)\(3\)\(i\) \(C\) of Regulation S-K\]](#)

Financial reporting and internal controls

20. 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:
 - 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
 - Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls [\[Rules 13A-14\(a\) and 15d-14\(a\) of the Exchange Act\]](#)
21. 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 relating to internal control over financial reporting, as well as company-specific 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\(b\)\(iii\)\(B\)\]](#).
22. Discuss the listed company's earnings press releases as well as financial information and earnings guidance provided to analysts and ratings agencies, 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\(b\)\(iii\)\(C\)\]](#).
23. 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\(b\)\]](#).
24. 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\(b\)\]](#).
25. 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\(b\)\]](#).

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26. The audit committee or another independent body of the board of directors shall conduct a reasonable prior review and oversight of all related-party transactions¹⁰ for potential conflicts of interest and will prohibit such a transaction if the committee determines the transaction to be inconsistent with the interests of the company and its shareholders *[Items 404(a) and (b) of Regulation S-K, NYSE Rule 314, 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.
27. 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 *[Rule 10A-3(b)(3) of the Exchange Act, NYSE Corporate Governance Rule 303A.06, and Nasdaq Corporate Governance Rule 5605(c)(3)]*.
28. In consultation with the independent auditor and the internal audit function, review the integrity of the company's internal and external financial reporting processes.

Risk management

29. Discuss policies with respect to risk assessment and risk management.¹¹ Discuss the risk guidelines and policies to govern the risk assessment and management process. Discuss the listed company's major financial risk exposures and the steps management has taken to monitor and control such exposures *[NYSE Corporate Governance Rule 303A.07(b)(iii)(D)]*.
30. Review contingent liabilities and risks that may be material to the company (including, without limitation, risks relating to cybersecurity) as well as relevant major legislative and regulatory developments that could materially impact the company's contingent liabilities and risks.
31. Consider the risk of management's ability to override the company's internal controls.

Internal audit¹²

32. Oversee and monitor the performance of the company's internal audit function, including:
 - Discussing with the independent auditor and management the responsibilities, budget, and staffing of the internal audit function and any recommended changes in the planned scope of the internal audit *[commentary to NYSE Corporate Governance Rule 303A.07(b)(iii)(F)]*¹³
 - Engaging with senior management to ensure the internal audit function is free from interference and has unrestricted access to data, records, and personnel.
 - Meeting separately with internal audit, without management present, to discuss issues and concerns warranting the attention of the committee.
 - Reviewing results of internal audit services (engagement conclusions, thematic insights, business unit or organizational conclusions) and management's responses to audit reports.
 - Reviewing and advising on the selection and removal of the chief audit executive.

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10. Related-party transactions are defined as those transactions required to be disclosed under Items 404(a) and (b) of Regulation S-K.

11. Though not required, many audit committees find it helpful to have risk assessment and risk management discussions with their independent auditor, management and internal audit, as applicable.

12. 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."

13. 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.

- Discussing with the chief audit executive and senior management the appropriate authority, role, and responsibilities of the internal audit function.
- Reviewing the activities and organizational structure of the internal audit function, as well as the qualifications of its personnel
- Annually reviewing, recommending changes (if any), and approving the internal audit charter, which includes the internal audit mandate, defining its authority, role, and responsibilities.
- Annually providing input and approving the internal audit function's performance objectives.
- Providing perspectives on expectations to the chief audit executive and reviewing the internal audit strategic (multi-year) plan.
- Annually, discussing and reviewing the internal audit plan, including the impact of resource limitations.
- Reviewing and approving the chief audit executive's plans for the performance of an external quality assessment, as well as approving related action plans and timelines to address related findings.

Ethical compliance, legal compliance¹⁴

33. Review with the company's legal counsel any 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\(b\)\(iii\)\(H\)\]](#).
34. Oversee, review, and periodically update the company's code of business conduct and ethics¹⁵ as well as the company's system to monitor compliance with and enforcement of the code, including the hotlines and whistleblower function.

Reporting

35. Review the audit committee charter at least annually [\[Nasdaq Corporate Governance Rule 5605\(c\)\(1\)\]](#) and communicate recommendations of any necessary amendments to the board of directors.
36. Report regularly to the board regarding the execution of the audit committee's duties, responsibilities, and activities; any issues encountered; and related recommendations [\[NYSE Corporate Governance Rule 303A.07\(b\)\(iii\)\(H\)\]](#).
37. 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\]](#).
38. Provide a report of the audit committee, which contains certain required disclosures, in the company's annual proxy [\[Item 306 of Regulation S-K and Item 7\(e\)\(3\) of Schedule 14A\]](#).

Other responsibilities

39. Conduct an annual performance assessment relative to the audit committee's purpose, duties, and responsibilities outlined herein [\[NYSE Corporate Governance Rule 303A.07\(b\)\(ii\)\]](#).
40. 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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14. The audit committee charter should include items 33 and 34 if the audit committee, rather than another committee, assumes responsibilities with respect to ethical compliance.
15. 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.





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