



Illustrative Audit Committee Charter

In today's rapidly evolving business landscape, the speed at which risk and opportunity develop necessitates a thoughtful and adaptive board structure to meet an organization's needs. This document serves as a **practice aid** providing **illustrative guidance** to support audit committees and boards in understanding and documenting the audit committee's role and responsibilities.

The audit committee (AC) continues to experience an expanding mandate of risk oversight responsibility that needs to be defined, communicated, and documented such that the committee members, as well as the other members of the board, clearly understand the AC's remit. This practice aid offers examples of topics and responsibilities either required or commonly addressed in an audit committee charter to help inform that process.

All content in this document is **illustrative in nature** and is not intended to serve as a model or template charter. Rather, it is designed to assist users in considering the scope of AC responsibilities, including those assigned by the board beyond regulatory requirements, and how those responsibilities may be carried out. Any resulting AC charter should be tailored to the specific facts and circumstances of the organization, reviewed at least annually, and approved by the board to ensure that it captures and portrays the role of the AC accurately.

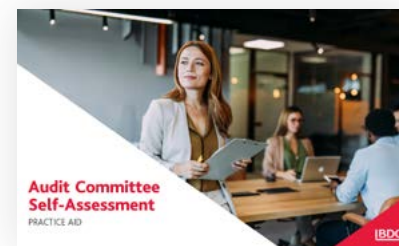
BDO developed this practice aid with consideration of applicable exchange listing standards, SEC requirements, widely available audit committee resources, and BDO's experience working with public and private company ACs and those charged with governance.

Recognizing that as risks and opportunities arise or grow in size and scale, board committees may often share responsibility for oversight. In those situations, your documentation should be clear as to the specific responsibilities allocated to each committee.

This practice aid was developed in conjunction with other BDO AC resources, including:



[Audit Committee Requirements Practice Aid](#)



[Audit Committee Self-Assessment Tool](#)



[Annual Audit Committee Priorities](#)



[Assuming the Audit Committee Chair Role](#)

Audit Committee Charter Requirements

Both the New York Stock Exchange ("NYSE") and National Association of Securities Dealers Automated Quotations ("Nasdaq") require listed companies to have written audit committee (AC) charters. While the U.S. Securities and Exchange Commission ("SEC") does not require companies to adopt an AC charter, it does require companies to disclose in their annual proxy statement whether the AC is governed by a charter, and if so, disclose whether a copy of the charter is available on the corporate website and the website address.

The following summarize the NYSE and Nasdaq minimum listing requirements (and the SEC requirements incorporated by reference) for AC charters addressing the AC's purpose, duties, and scope of responsibilities, which include^{1, 2}:

Requirement	Nasdaq 5605(c)	NYSE (303A.07)
Oversight of the integrity of the listed company's financial statements		X
Oversight of the company's accounting and financial reporting processes	X	
Discussion of the Company's financial statements, including reviewing the listed company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations", earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies with management and external auditors		X
Oversight of the external auditor and associated audit, including the external auditor's qualifications and independence. Specific responsibilities include:	X	X
▶ Ensure the receipt from the external auditors of a formal written statement delineating all relationships between the external auditor and the Company, actively engaging in a dialogue with the external auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditor	X	
▶ Appoint, compensate, and retain registered public accounting firm	X	X
▶ Resolve disagreements between management and the external auditor regarding financial reporting and management's response	X	X

¹ Users should consult the referenced rules and embedded guidance and consult with legal counsel when preparing their AC charter

² Exchange listing standards incorporate by reference Rule 10A-3(b)(2), (3), (4) and (5) of the Securities Exchange Act of 1934.

Requirement	Nasdaq 5605(c)	NYSE (303A.07)
▶ At least annually, obtain and review a report by the external auditor (independent registered public accounting firm) describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the external auditor's independence) all relationships between the external auditor and the listed company ▶ Assess performance of external auditor ▶ Set clear hiring policies for employees or former employees of the external auditors ▶ Meet to review and discuss the Company's annual audited financial statements and quarterly financial statements with management and the external auditor, including reviewing the Company's specific disclosures within MD&A ▶ Meet separately and periodically with external auditors		X
Oversight and performance of the company's internal audit function including periodically meeting separately with internal auditors (or other personnel responsible for the internal audit function)		X ³
Oversight of the listed company's compliance with legal and regulatory requirements		X
Procedures for the receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal controls, accounting or auditing matters; the confidential, anonymous submission by employees of the listed Company of concerns regarding questionable accounting or auditing matters	X	X
Authority to engage independent counsel and other advisors AC deems necessary to carry out its duties	X	X
Provided appropriate funding, as determined by the AC, for external auditor, necessary advisors, and ordinary administrative expenses	X	X

³ For NYSE listed companies, if the listed company does not yet have an internal audit function because it is availing itself of a transition period pursuant to Section 303A.00, the charter must provide that the committee will assist board oversight of the design and implementation of the internal audit function.

Requirement	Nasdaq 5605(c)	NYSE (303A.07)
Preparation and/or review of the corporate governance disclosures required by Item 407(d)(3)(i) of Regulation S-K relating to the audit committee report to be included in the annual proxy statement		X
Discuss policies with respect to risk assessment and risk management		X
Meet separately, periodically, with management		X
Report regularly to the board of directors		X
Assess the annual performance of the AC		X
Review and reassess the adequacy of the formal written charter on an annual basis	X	
Detail the scope of the committee responsibilities and the means by which the committee carries out those responsibilities including structure, processes, and membership requirements of the committee	X	



[Insert Name of Company] Audit Committee Charter

This audit committee charter has been approved by the board of directors ("the board") of [insert Company name] ("the Company") on [insert date]. This charter shall guide the audit committee ("the committee") in fulfilling its governance responsibilities to the board in overseeing the quality and integrity of the Company's accounting and financial reporting practices, policies, controls, and processes and both the internal and external auditors.

PURPOSE

The committee is appointed by the board. The committee's role is to act on behalf of the board of directors and provide oversight of:

- ▶ The integrity of the Company's financial statements and financial reporting process
- ▶ The Company's compliance with legal and regulatory requirements
- ▶ The external auditor's qualifications, independence, and performance
- ▶ The performance of the Company's internal audit function

The committee's role includes a particular focus on the qualitative aspects of management's financial reporting to shareholders and on Company processes for the management of business/financial risk and for compliance with significant applicable legal, ethical, and regulatory requirements. The role also includes coordination with other board committees and maintenance of strong, positive working relationships with management, external and internal auditors, counsel, and other advisors.

The function of the committee is oversight. Members of the committee are not employees of the company and do not bear any of the responsibilities of management and the Company's auditors. The committee is responsible for the duties set forth in this charter. Management has the responsibility for the preparation, presentation, and integrity of the Company's financial statements. Management is responsible for establishing and maintaining the appropriate policies, procedures, and internal control environment to provide compliance with accounting standards and applicable laws and regulations.

The external auditors are responsible for planning and performing the audit in accordance with PCAOB standards to obtain reasonable assurance about whether the Company's financial statements are free of material misstatement, whether due to error or fraud, and, where required, for performing an audit of internal control over financial reporting and expressing an opinion on its effectiveness.

COMPOSITION

The committee shall consist of at least three independent non-executive board members. Each committee member shall meet the requirements of the applicable listing standards (e.g., NYSE, Nasdaq), federal laws, and regulations, with respect to audit committees, as they may become applicable from time to time, as well as the requirements of the company's corporate governance guidelines.

Committee members shall have:

- ▶ Knowledge of the primary industries in which the Company operates;
- ▶ The ability to read and understand fundamental financial statements, including the Company's balance sheet, income statement, statement of cash flows and key performance indicators; and
- ▶ The ability to understand key business and financial risks and related controls and control processes.

The committee shall have access to and funding for its own counsel and other advisors at the committee's sole discretion. At least one member, preferably the chair, should be deemed "an audit committee financial expert." The committee chairperson shall be selected by the committee members or by the Nominating and Governance Committee.

The committee may form and delegate authority to subcommittees and may delegate authority to one or more designated members of the committee, including specific approvals and pre-approvals, which must then be reported to the full committee.

Committee Appointment and Refreshment

Committee members shall be appointed and removed per the Company's Bylaws. The committee member shall serve the committee until such time as the member's request to be removed from the committee, resignation from the board, or by removal from the board at the board's discretion.

The committee shall ensure each member has adequate time to devote to their duties.

Committee members may not serve on more than **[insert number]** public company boards of directors unless the board has determined such service would not prevent members to effectively serve the Company.

Consideration of director continuance or refreshment will be considered, together with the Nominating and Governance Committee, including but not limited to annual evaluation, skills alignment, rotation planning, tenure, termination, mandatory retirement age, etc.

COMMITTEE OPERATING AND MANAGEMENT PRINCIPLES

The committee shall fulfill its oversight responsibilities within the context of the following overriding principles:

General Responsibilities and Communications

The chair and others on the committee shall, to the extent appropriate, maintain an open avenue of contact throughout the year with senior management, other committee chairs, and other key committee advisors (e.g., external and internal auditors, etc.), as applicable, to strengthen the committee's knowledge of relevant current and prospective business issues.

The committee shall have access to management without restriction.

Onboarding and Continuing Education

The committee, with management, shall develop and provide appropriate and timely onboarding education and processes for new committee members. The committee shall participate in a process for review of important financial and operating topics that present potential significant risk to the Company and recommend or provide opportunity for training where appropriate. Additionally, individual committee members are encouraged to participate in relevant and appropriate continuing education to ensure understanding of the business and environment in which the Company operates as well as independence requirements of board members.

Annual Plan

At the beginning of the year, the committee, with input from management and other key committee advisors, shall develop an annual plan responsive to the "primary committee responsibilities" detailed herein including a schedule of agenda subjects to be discussed during the year, to the extent foreseeable and practical. The annual plan shall be reviewed and approved by the full board.

Meeting

The committee shall meet as often as it deems appropriate, but at least quarterly. Additional meetings shall be scheduled as considered necessary by the committee or chair. Meetings shall take place in person, telephonically, or by other means providing each member can actively participate. The majority of the members of the Committee shall constitute a quorum.

The chair of the committee will determine the frequency and length of committee meetings and develop meeting agendas, with input from committee members.

It is expected that the chair will also ask for management and key committee advisors, and perhaps others, to participate in this process.

The committee shall request members of management, employees, counsel, internal and external auditors, as applicable, to participate in committee meetings, or meet with committee members as necessary, to carry out the committee's responsibilities. Periodically, and at least annually, the committee shall meet in private sessions with only the committee members. It shall be understood that meetings between the committee and/or the committee chair with either internal or external auditors, or counsel, may, at any time, be deemed necessary, with or without management's attendance. In any case, the committee shall meet in executive sessions separately with internal and external auditors and management, at least annually.

Expectations and Information Needs

The committee shall communicate committee expectations and the nature, timing, and extent of committee information needs to management, internal auditors and external parties, including external auditors. Written materials, including key performance indicators and measures related to key business and financial risks, shall be received from management, internal and external auditors, and others at least one week in advance of meeting dates. Meeting conduct will assume committee members have reviewed written materials in sufficient depth to participate in committee/board dialogue.

External Resources

The committee shall be authorized to access internal and external resources, as the committee requires, in carrying out its responsibilities. This includes the authority and funding to hire and terminate external auditors, advisors, and counsel, as well as the responsibility to approve services and fees paid to such resources.

The committee shall have the authority to conduct or authorize investigations into any matter within the committee's scope of responsibilities. The committee will be empowered to retain independent counsel and other professionals to assist in conducting any investigation, who will report directly to the committee.

Reporting

The committee, through the committee chair, shall report regularly, as deemed necessary to the full board. In addition, summarized minutes from committee meetings, separately identifying monitoring activities from approvals, shall be available to each board member at least one week prior to the subsequent board of director's meeting.

The committee shall review and approve the audit committee report for inclusion in the Company's annual proxy statement. The committee shall also disclose in the proxy statement that it is governed by a charter and include instructions on how to access the current charter.

The committee shall review and update the committee's charter at least annually and provide to the Board for approval.

Self-Assessment

The committee shall review, discuss, and assess its own performance as well as its role and responsibilities at least annually, seeking input from senior management, the full board and others. Changes in roles and/or responsibilities, if any, shall be recommended to the full Board for approval.

Together with the Nominating and Governance Committee the results of its self assessment will be used to (i) develop action plans, (ii) monitor progress against those actions, and (iii) report outcomes and key takeaways to the full board.



OVERSIGHT OF RISK MANAGEMENT AND FINANCIAL REPORTING RESPONSIBILITIES

Financial Reporting

The committee shall perform the following with respect to the Company's financial reporting:

- ▶ Oversee the integrity of the company's financial reporting process.
- ▶ Discuss, review, and assess the annual and interim financial statements, including management discussion and analysis (MD&A), earnings releases, and information and earnings guidance with management and the external auditors before they are released to the public or filed with the SEC and formally recommend to the board that the audited annual financial statements be included within the Company's annual report filed with the SEC.
- ▶ Review and discuss with management and the external auditor the processes used to ensure consistency and accuracy in significant public communications that include or accompany financial information (e.g. the annual report, earnings releases, and investor presentations).
- ▶ Discuss, review, and assess the key financial statement issues and risks, their impact or potential effect on reported financial information, the processes used by management to address such matters, related external auditors' views, and the basis for audit conclusions.
- ▶ Discuss and review management's analysis of significant and critical accounting policies and judgments.
- ▶ The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the listed company.
- ▶ Review and discuss with management and external auditor changes in important accounting principles and the application thereof in both interim and annual financial reports.
- ▶ Review any issues or concerns identified regarding accounting principles or internal controls.
- ▶ Advise financial management and the external auditors that they are expected to provide a timely analysis of significant current financial reporting issues and practices.
- ▶ Review and discuss with management and legal counsel the company's selection, calculation, presentation and disclosure of "pro-forma" or non-GAAP measures and key performance indicators (KPIs) with regard to transparency, consistency, and comparability of such measures.
- ▶ Oversee management's disclosure framework and processes, including readiness for significant U.S. and global requirements (e.g., climate and other sustainability reporting, if applicable), and oversee the external auditor's role in providing assurance or assessing readiness for assurance over emerging disclosures.

Risks and Controls⁵

The committee shall perform the following with respect to the Company's risks and controls to address those risks:

- ▶ Review and assess the Company's policies and practices and its implementation and effectiveness with respect to risk assessment and risk management of the Company's risks, and the steps that have been taken to monitor, control, and report such exposures.
- ▶ Review management's and the external auditor's consideration of enterprise risk management factors - e.g., macroeconomic conditions, geopolitical and regulatory developments - within overall risk management systems or processes and determine whether significant impacts of such risks are reflected within the financial statements.
- ▶ Review and assess the adequacy of the overall control environment and controls in selected areas representing significant risk.
- ▶ Review and assess the Company's system of internal controls for detecting accounting and financial reporting errors, fraud and defalcations, legal violations, and noncompliance with the corporate code of conduct. In that regard, review the related findings and recommendations of the external and internal auditors, together with management's responses.
- ▶ Review management's quarterly SOX Certification(s) of Disclosure including any report to the committee of all significant deficiencies in the design or operation of internal controls, any material weaknesses in internal controls identified, and any fraud involving management or other employees who have a significant role in internal controls.
- ▶ Review and discuss with the external auditor the results of the audit related to internal controls including required PCAOB communications related to significant deficiencies, material weaknesses, ineffective control environment, and control deficiencies.
- ▶ Review, monitor, and evaluate the status and timeliness of management's remediation plans for issues identified.
- ▶ Review and discuss with the external auditor related parties, relationships or transactions with related parties, and other significant unusual transactions.
- ▶ Review with legal counsel any regulatory matters that may have a material impact on the financial statements.
- ▶ Review the results of the annual audits of directors' and officers' expense accounts and management perquisites prepared by the internal auditors.
- ▶ Review the governance of emerging technologies to ensure ethical use and data integrity, oversee the impact of these technologies on ICFR; and evaluate management's process for mitigating technical, legal, and operational risks – such as bias and data privacy issues – associated with the Company's digital transformation and technology deployment.
- ▶ Understand the Company's risk tolerance and mitigation of fraud risk factors along with reviewing management's fraud risk assessment process and anti-fraud program, including controls designed to prevent, detect or mitigate fraud.
- ▶ Review the Company's cybersecurity risk management program, including the policies and procedures for identifying, assessing, and disclosing material threats; monitor the effectiveness of security controls for corporate and third-party systems; and review the adequacy of disclosure controls related to cybersecurity incidents in compliance with applicable regulatory requirements.

⁵ As part of its oversight activities, the audit committee should evaluate which specific risks, or elements of broader enterprise risks, have been assigned to the committee and confirm that the audit committee charter appropriately reflects the related responsibilities, particularly for shared oversight with the board or other board committees.

Oversight of External Auditors

The committee shall perform the following with respect to its oversight of the external auditors:

- ▶ Recommend the selection of the external auditors for approval by the board of directors and determine the compensation of the external auditor.
- ▶ Consider providing, on a voluntary basis, proxy disclosure of factors considered in the selection/reappointment of external auditor and lead audit engagement partner; auditor tenure; audit fees; and annual auditor evaluations.
- ▶ The committee will receive, at least annually, the auditor's written independence communication and affirmation required by PCAOB Rule 3526 and Rule 3520, and discuss the potential effects of relationships on independence.
- ▶ Discuss with the external auditors any relationships or non-audit services that may affect their objectivity or independence.
- ▶ Oversee the audit firm engagement partners selection and succession planning; regularly evaluate the engagement partners' performance and the quality of communications and interactions with the committee; and monitor compliance with engagement partners' rotation, independence, and conflict-of-interest requirements.
- ▶ Instruct the external auditors that they are responsible to the board of directors and the committee as representatives of the shareholders. In that regard, confirm that the external auditors will report all relevant issues to the committee in response to agreed-upon expectations.
- ▶ Perform, at least annually, an external auditor evaluation and present its conclusions to the full board.
- ▶ Review and pre-approve requests for any audit-related or permitted non-audit services to be performed by the external auditors, and be advised of any other study undertaken at the request of management that is beyond the scope of the audit engagement letter.⁶
- ▶ Review and discuss required PCAOB communications when planning the audit including audit scope, overall audit strategy and timing of the audit to ensure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- ▶ Discuss the nature and extent of specialized skills or knowledge needed to address significant risks.
- ▶ Discuss the extent to which there are plans to use the work of others and the basis for the external auditor's determination that he/she can serve as the principal auditor.
- ▶ Review with management and the external auditors the results of the annual audit, required PCAOB communications, and related comments in consultation with other committees as deemed appropriate, including any key risk factors, difficulties or disputes with management, any significant changes in the audit plans, the rationale behind adoptions and changes in accounting principles, and accounting estimates requiring significant judgments.
- ▶ Provide a medium for the external auditors to discuss with the committee their judgments about the quality, not just the acceptability, of accounting principles and financial disclosure practices used or proposed to be adopted by the Company.
- ▶ Discuss the significant findings of the audit including:
 - Significant and critical accounting policies and practices used by the Company
 - Alternative accounting treatments within generally accepted accounting principles (GAAP) related to material items that have been discussed with management
 - Significant unusual transactions, consultations by external auditors or management, and uncorrected misstatement
 - Related party transactions
 - Other material written communications between the accounting firm and management (e.g., management representation letters, engagement letters, etc.)
- ▶ Review with the external auditor the audit firm's internal control procedures, quality control policies and procedures, and any material issues raised by inspections of firm engagements, respecting one or more independent audits carried out by the firm, and any steps taken to deal with such issues.
- ▶ Discuss with the external auditor PCAOB, other regulatory, and peer inspection findings and quality control measures.
- ▶ Review with the external auditor the draft auditor's report on the annual audited financial statements, critical audit matters, or any departure from the standard audit opinion.
- ▶ Set clear hiring policies for employees or former employees of the external auditor.

⁶ See [BDO's Audit Committee Pre-Approval of Services Guide](#).

Oversight of Internal Auditors (IA)

The committee shall perform the following with respect to its oversight of the internal auditors:

- ▶ Review and approve the IA charter, which includes the purpose of the IA function, essential conditions for governing the IA function, IA authority, role(s) and responsibilities, along with the scope and types of IA services to be performed.
- ▶ Approve hiring and retention decisions of the chief audit executive (CAE), and identify the necessary qualifications, experience, and competencies.
- ▶ Review performance of the CAE and approve annual compensation.
- ▶ Enable and confirm the organizational independence of the IA function.
- ▶ Approve IA annual audit plan, budget and resource plan, and any significant changes; together with discussions around potential impact on the effectiveness of the IA function.
- ▶ Discuss with the CAE the IA function external quality assurance and improvement program and approve and monitor an action plan to remediate identified deficiencies and opportunities for improvement.
- ▶ Discuss IA function responsibilities, budget, and staffing with external auditor.
- ▶ Review with IA the effectiveness of the organization's enterprise risk management and management's responsibilities for identifying, prioritizing, and managing risk.
- ▶ Discuss with IA, the nature and extent of specialized skills or knowledge needed to address significant risks.
- ▶ Review with IA the results of their monitoring of compliance with the Company's expectations with respect to codes of conduct and ethics.

Oversight of Compliance and Ethics

The committee shall perform the following with respect to its oversight of the compliance and ethics of the Company:

- ▶ Establish and monitor procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- ▶ Review the Company's Related Party Transaction Review Policy and recommend any changes.
- ▶ Oversee the Company's process for identifying, evaluating, approving, and disclosure of related party transactions.
- ▶ Review and update the Company's code of conduct & ethics and the Company's monitoring of compliance and enforcement of the Code.
- ▶ Review the system of compliance with legal, ethical, and regulatory requirements.

A photograph of four diverse professionals (three men and one woman) sitting around a table in a modern office setting, engaged in a meeting. They are looking at documents and talking. The image is partially obscured by a white diagonal graphic element.

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HAVE QUESTIONS OR WANT TO LEARN MORE? CONTACT US!

Our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes and value for our people, our clients and our communities. BDO is proud to be an ESOP company, reflecting a culture that puts people first. BDO professionals provide assurance, tax and advisory services for a diverse range of clients across the U.S. and in over 160 countries through our global organization.

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