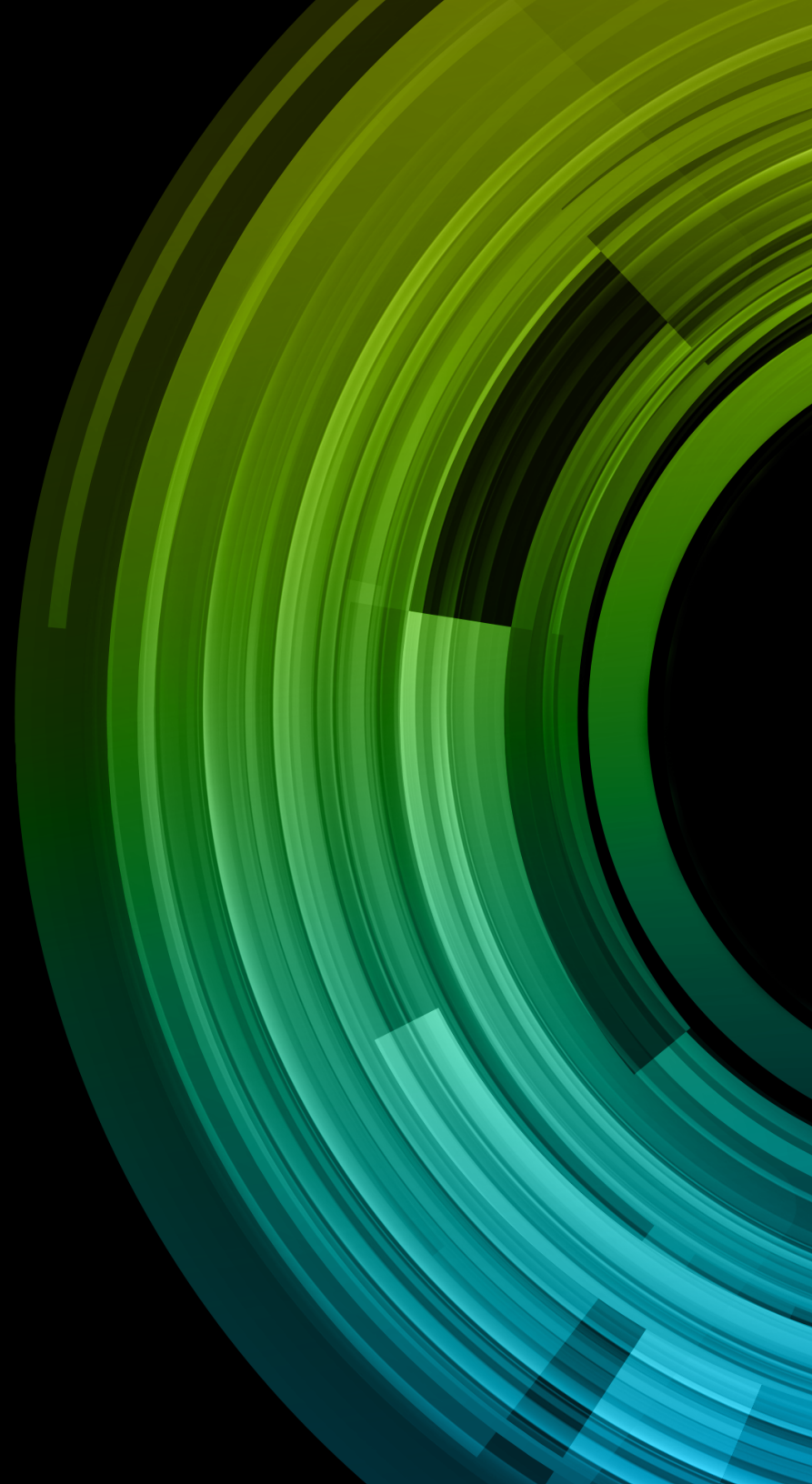


Audit Committee Guide

**Requirements, oversight responsibilities,
and effectiveness strategies**

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Message from Deloitte's Center for Board Effectiveness

As an audit committee member, you have an essential role in contributing to your company's success. Shareholders rely on your judgments as they make investment decisions. Your fellow board members depend on your insights as they consider the company's risk landscape. Broader stakeholder groups, including regulators, management, employees, customers, and vendors, look to you to promote a culture of governance and compliance that can protect the company and enable it to thrive.

Your success in meeting this ever-expanding mandate requires a clear understanding of the audit committee's role and responsibilities. The latest edition of Deloitte's Audit Committee Guide is intended to help you with this understanding.

Leveraging the guide, audit committees can gain an understanding of the requirements established by regulators and listing exchanges as well as the extensive and expanding scope of oversight responsibilities that apply to many audit committees. The guide also offers strategies for promoting effectiveness, and it suggests tools, resources, and questions audit committees can use to promote constructive dialogue on important topics.

Whether you are a new member of an audit committee or a seasoned veteran, the Audit Committee Guide offers practical considerations and resources to help you execute your responsibilities. While the guide is focused on requirements for US public companies, much of the content can be leveraged by those serving on nonpublic company audit committees.

We encourage audit committee members to explore and consider the content of the Audit Committee Guide with a focus on how it may highlight opportunities for improvement. The guide can serve as a valuable resource in raising the bar on audit committee performance at a time when expectations on audit committees are expanding and escalating.

Kind regards,



Krista Parsons
Managing Director
Audit Committee Program Leader
Center for Board Effectiveness
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Preface

The *Audit Committee Guide* provides an overview of requirements, oversight responsibilities, and effectiveness strategies that are relevant for US public company audit committees.

Bookmark this guide and refer to it often for the latest information and resources regarding audit committee requirements, oversight responsibilities, and strategies for promoting effectiveness. Tools and resources are offered on select topics. Topic-focused questions audit committees can consider asking are found throughout the guide, as well as in a [separate PDF](#) that compiles all questions found throughout the guide. The *Audit Committee Guide* and supporting documents will be updated regularly to reflect evolving guidance and leading practices. The three major sections of this guide include information on:



Requirements

The required structure and composition of the audit committee as well as requirements for charters, independence, financial expertise and literacy, and evaluating performance.



Oversight responsibilities

The audit committee's responsibility to oversee financial reporting and related internal controls, risk, ethics and compliance, and auditors.



Effectiveness

Leading practices audit committees can consider in preparing for and conducting meetings and in executing their oversight responsibilities.

The guide is not a comprehensive examination of all audit committee requirements. Companies should review regulatory requirements and consult qualified professional advisers to understand compliance requirements applicable to them.

For more information, audit committee members can tap into a variety of Deloitte resources:

- [Subscribe](#) to the *Audit Committee Brief* and other Deloitte publications.
- Access archives of Deloitte's [Audit Committee Brief](#).
- Access archives of Deloitte's [On the audit committee's agenda](#), a periodic deep dive into timely audit-related topics.
- Explore further resources at Deloitte's [Audit Committee](#) and [Center for Board Effectiveness](#) pages on Deloitte.com.

Audit committee requirements

Audit committees of companies that are publicly traded in the United States are subject to rules of the Securities and Exchange Commission (SEC) and listing standards of the exchange on which the company's securities are listed, such as the New York Stock Exchange (NYSE) or Nasdaq. These include rules and standards related to committee composition, the charter, and committee evaluations. Indirectly, audit committees may be subject to additional requirements resulting from rules and standards for independent auditors under the Public Company Accounting Oversight Board (PCAOB).

Composition

Under NYSE and Nasdaq requirements, the audit committee should consist of three or more directors who are independent as determined by the board. All members must comply with the independence and financial literacy requirements of the SEC, NYSE, and Nasdaq. Audit committees are not required to include an audit committee financial expert as defined by the SEC, but they are required to disclose why they do not have one if that is the case, which encourages audit committees to have at least one member who qualifies as a financial expert. Audit committees should review their composition periodically to confirm that members have the knowledge and experience they need to be effective in their roles.

Under NYSE standards, 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 would not impair the ability of the member to effectively serve on the company's audit committee and must disclose this in the company's proxy statement. Nasdaq does not have a similar requirement, although many Nasdaq-listed companies have similar policies to respond to investor views or other circumstances.

Independence and qualifications of members

Audit committee members must be independent directors; however, audit committee members are required to meet heightened standards of independence compared with independence standards for other board members. Given these requirements, independence of audit committee members should be continually maintained, monitored, and reviewed at least annually. Listed companies should have policies in place to allow timely identification of changing relationships or circumstances that may affect the independence of audit committee members.

Companies generally require directors to complete independence questionnaires when joining the board and each year thereafter and to notify the company of any changes that may affect independence. For audit committee members, these questionnaires should be tailored to reflect the additional independence criteria required of them. The board should review any relationships or circumstances provided in audit committee members' responses to these questionnaires and determine whether they impair or could be perceived as impairing independence. Companies may want to involve legal counsel in assessing the independence of audit committee members and other directors.

SEC requirements

Section 10A of the Securities Exchange Act of 1934 specifies general criteria for audit committee independence. Under these criteria, an audit committee member is permitted to receive compensation such as director fees, retainers, and meeting fees for serving on the board, the audit committee, or another committee, but may not accept any other consulting, advisory, or compensatory fee from the company or any subsidiary, nor be affiliated with the company or any subsidiary. Prohibited compensation includes that received for services rendered by a law firm, accounting firm, consulting firm, investment bank, or similar entity in which the audit committee member is a partner, executive officer, or holds similar positions. Prohibited compensation also includes payments to spouses, minor children or stepchildren, and adult children or stepchildren who share a home with the audit committee member.

Section 10A also prohibits a person “affiliated” with the company or a subsidiary from serving on its audit committee. Under SEC rules, a person is affiliated if the person is an executive officer, a director and employee, a general partner, or a managing member of another entity that controls, is controlled by, or is under common control with the company. Control is defined as “the power to direct or cause the direction of ... management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.” Under the SEC rules, a director is considered independent to serve on an audit committee if the director is neither an executive officer nor a holder of 10% or more of the entity’s shares. The rule provides limited exceptions.

NYSE requirements

The NYSE listing standards incorporate the SEC’s independence requirements but include additional requirements. NYSE listing standards state that an audit committee member is not independent if any of the following applies:

- The member is an employee or an immediate family member is or was an executive officer of the company during the past three years. According to NYSE listing standards, an immediate family member is defined as a person’s spouse, parents, children, siblings, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, and anyone (other than domestic employees) who shares such person’s home.
- The member or an immediate family member received more than \$120,000 in direct compensation from the company in any 12-month period during the previous three years, except for director fees, committee fees, pension and other forms of deferred compensation for prior service where such compensation is not contingent on continued service and other permitted payments.
- The member or an immediate family member is a current partner of the company’s internal or independent auditor; the member is a current employee of such a firm; the member has an immediate family member who is a current employee of such a firm and personally works on the company’s audit; or the member or an immediate family member was, but is no longer, a partner or employee of such a firm and personally worked on the company’s audit during the previous three years.
- The member is a current employee, or an immediate family member is a current executive officer, of another company that made payments to or received payments from the listed company for property or services in an amount that, in any one of the previous three fiscal years, was in excess of the greater of \$1 million or 2% of the other company’s consolidated gross revenues.

Nasdaq requirements

The Nasdaq listing standards also incorporate the SEC’s independence requirements but add further requirements as well. Nasdaq listing standards state that an audit committee member is not independent if any of the following applies:

- The member or a family member is an employee or was an executive officer of the company during the previous three years. A family member is defined in the Nasdaq listing as a person’s spouse, parents, children, siblings, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, and anyone (other than domestic employees) residing in such person’s home.
- The member or a family member accepted compensation in excess of \$120,000 from the company in any 12-month period during the previous three years, except for director fees, compensation paid to a family member who is an employee (other than executive officer) of the company, or benefits under a tax-qualified retirement plan or non-discretionary compensation.
- The member or a family member is a partner of the company’s independent auditor or was a partner or employee of the company’s independent auditor and worked on the company’s audit during the previous three years.
- The member or a family member is employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the company served on the compensation committee of such other entity.
- The member or a family member is a partner, controlling shareholder, or executive officer of another organization that received from, or made payments to, the listed company for property or services in an amount in excess of the greater of 5% of the recipient’s gross revenues or \$200,000, or did so during the previous three years, with certain limited exceptions.

Financial literacy of members

Audit committee members are required to have a measure of financial literacy to effectively discharge their oversight responsibilities. SEC rules and exchange listing requirements define these requirements in different ways.

SEC requirements

The SEC requires an issuer to disclose whether at least one “audit committee financial expert” serves on the audit committee, and if so, the name of the expert and whether the expert is independent of management. The SEC defines the term as an individual who the board determines to possess all the following attributes:

- An understanding of financial statements and generally accepted accounting principles (GAAP)
- An ability to assess the general application of GAAP in connection with accounting for estimates, accruals, and reserves
- Experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to what can reasonably be expected to be raised by the company’s financial statements, or experience actively supervising those engaged in such activities
- An understanding of internal control over financial reporting
- An understanding of the audit committee’s functions

The rule indicates that the attributes may be acquired by any of the following:

- Education and experience as a principal financial officer, principal accounting officer, controller, public accountant, or auditor, or experience in positions that involve similar functions
- Experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor, or someone performing similar functions
- Experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing, or evaluation of financial statements
- Other relevant experience

Disclosure of whether at least one audit committee member is an audit committee financial expert is required in the annual report or proxy statement. If the committee does not have at least one audit committee financial expert, the company must explain why it does not. The SEC also requires disclosure of the financial expert’s name and whether the expert is independent of management. The company may choose to disclose whether more than one audit committee member is an audit committee financial expert, but the names of any additional experts need not be disclosed.

The SEC rule states that designation as a financial expert does not imply that an individual is an expert for any purpose under the Exchange Act or otherwise. Furthermore, it does not elevate the duties, obligations, or liabilities of that member or lessen those of other board and audit committee members.

NYSE requirements

The NYSE requires all audit committee members to be “financially literate” as interpreted by 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. Although the NYSE listing standards do not require the audit committee to include a person who satisfies the SEC’s definition of a financial expert, a person who satisfies the SEC’s definition also satisfies the NYSE requirement.

Nasdaq requirements

Nasdaq listing standards require all audit committee members to be able to read and understand financial statements at the time of their appointment to the committee. Nasdaq also requires at least one audit committee member to be “financially sophisticated.” Financial sophistication may be obtained through employment experience in finance or accounting, professional certification in accounting, or any comparable experience, including current or past employment as a chief executive officer, chief financial officer, or other senior officer with responsibility for financial oversight. Like the NYSE, Nasdaq does not require a financial expert on the audit committee, but if the board determines an individual to be a financial expert, the expert will also be deemed financially sophisticated.

Diversity of members

Nasdaq requires disclosure of information about the diversity of the company's board. Companies are required to disclose board-level diversity statistics using a standardized template and explain in cases where they do not have at least two diverse directors. Nasdaq defines diversity as those who self-identify as a female, an underrepresented minority, or LGBTQ+. The rule does not apply to audit committees specifically, but it may serve as a reminder for committees to consider diversity in their composition.

Composition: Common practices and considerations

In designating an audit committee financial expert, the board should abide by the SEC rules and applicable listing requirements and may wish to consult with legal counsel when doing so. Given the complex issues audit committees often address, proactive audit committees often choose to have more than one financial expert. Audit committees might consider using a skills matrix to identify the skills and experience important to their committee considering the growing agendas for many audit committees in areas such as risk, cyber, and environmental, social, and governance (ESG) issues. In making this determination, the board may have audit committee members complete a questionnaire to evaluate whether an individual meets the criteria.

Although financial expert status may not change over time, committee members should invest the effort needed to understand the latest developments in financial reporting and auditing standards, as well as developments affecting the company, particularly in areas the audit committee oversees, to determine whether any changes in composition are warranted. If the committee determines that it's lacking in a particular skill or capability, the audit committee chair should discuss this issue with the nominating and governance committee, which is responsible for recruiting board members, as it considers board succession planning. Some boards have a process for reconfirming the financial literacy of their audit committee members and revisiting the financial expert designation periodically. It is also important for the board and the audit committee to consider financial literacy and expertise during succession planning.

The SEC requires proxy disclosures about the qualifications of directors and the nomination process. The disclosure includes information about the experience, qualifications, and attributes considered in the nomination process and the reasons why individuals should serve on the company's board. Disclosures regarding individual board committee qualifications are not required, but companies may want to consider including such qualifications as a part of the overall board qualification disclosure.

Composition: Questions to consider

1. What process can the audit committee use to periodically assess its composition to confirm whether its members collectively have the skills and experience (e.g., financial acumen, industry, business, leadership) needed to fulfill the company's evolving needs and the committee's duties? Are gaps discussed with other board members, such as the nominating and governance committee chair?
2. How does the committee cultivate diversity of thought and composition to elicit multiple points of view that can help the committee effectively meet its responsibilities?
3. What process can the committee consider for reconfirming the financial literacy of the audit committee members and revisiting the financial expert designation periodically?
4. What training and education programs are available to help audit committee members maintain their financial knowledge and remain current with new developments and trends in areas included in the committee's oversight responsibilities, including company-specific needs or issues?
5. How does the committee periodically assess, maintain, monitor, and review the independence of the audit committee members?

Charter

The SEC, NYSE, and Nasdaq set minimum requirements for the content of the audit committee charter.

SEC requirements

SEC rules require the proxy statements of public companies to disclose whether the board has adopted a written charter for the audit committee. If so, the statement must disclose whether a copy of the charter is available on the company's website and provide the address.

NYSE requirements

The NYSE requires the audit committee charter to include oversight of several key areas. Areas of oversight include:

- The integrity of the company's financial statements
- The company's compliance with legal and regulatory requirements
- The independent auditor's qualifications and independence
- The performance of the company's independent auditor and internal audit functions

Charters of NYSE-listed companies must set forth the audit committee's responsibility to discuss policies with respect to risk assessment and management; discuss the company's earnings press releases and information provided to analysts and rating agencies; meet in executive sessions with management, internal audit personnel, and the independent auditor; assess the audit committee's performance annually; prepare the audit committee report that is required by the SEC; comply with Section 10A of the Securities Exchange Act of 1934; and various other responsibilities specified by the NYSE listing standards.

Nasdaq requirements

Under Nasdaq standards, the committee must review the charter at least annually. The charter should include:

- The audit committee's purpose of overseeing the company's accounting and financial reporting processes and the audits of its financial statements
- The scope of the committee's responsibilities and how it carries out those responsibilities, including structure, processes, and membership requirements

The responsibilities in the charter must include the following:

- Obtaining a written statement from the independent auditor delineating all relationships between the auditor and the company, consistent with PCAOB Ethics and Independence Rule 3526
- Communicating with the independent auditor with respect to any relationships or services that may affect the auditor's objectivity and independence
- Overseeing the independence of the auditor or recommending that the full board take the responsibility to oversee the independence of the auditor

Right to engage independent counsel

The SEC, NYSE, and Nasdaq all authorize the audit committee to engage and compensate independent counsel and advisers, as required under the Sarbanes-Oxley Act. The audit committee may use the same counsel and advisers as management, but circumstances may warrant consideration of separate counsel. Lawyers are the outside advisers most often engaged by audit committees and may be engaged to advise on areas such as legal proceedings, corporate governance issues, whistleblower inquiries, fraud concerns, and SEC matters. The services may be investigative, or they may be used to identify potential process improvements.

Charter: Common practices and considerations

An annual review of the charter is recommended for all audit committees and is required for Nasdaq-listed entities. Some factors that may render updates necessary include:

- Changes in regulatory or legal requirements, including new disclosure requirements within the purview of the committee
- The board's delegation of new responsibilities to the committee or reassignment of responsibilities that are not required of the audit committee by law or regulation
- Changes in the company's bylaws that affect the composition of the committee or how members are appointed
- Identification of practices the audit committee wants to formalize and include among its responsibilities

In addition to addressing responsibilities prescribed by rules and listing standards, the charter should set forth the audit committee's recurring responsibilities as well as its responsibility for overseeing areas outside of those required by the SEC and listing standards of the exchange on which the company's securities are listed. The charter should allow the committee to meet outside the official calendar when needed. Concurrent with the charter review, the committee can examine its meeting schedule and consider if modifications are needed to allow the audit committee sufficient time to effectively carry out all its responsibilities.

To help with planning, audit committees can consider using their charter to create a calendar outlining what might be covered during each meeting over the course of a year, although charters and calendars may not align precisely.

When updating the charter and calendar, it may be helpful to consult with legal counsel, management, the internal auditors, if any, and the independent auditor. Any recommended changes to the audit committee charter should be presented to the board for approval.

Charter: Questions to consider

1. How does the committee consider additional risks that have arisen related to committee responsibilities in the charter?
2. What new responsibilities have been assigned or reassigned to the audit committee, and how have they been incorporated in the charter?
3. How do committee members manage their time commitments to allow adequate attention to their responsibilities as outlined in the charter?
4. How has the audit committee considered whether the responsibilities assigned to the committee are manageable? If the workload may hinder the committee's ability to execute its duties effectively, are there options for reallocating certain responsibilities to the board or other committees where reasonable?
5. How does the committee align its activities with a calendar to incorporate both required activities as set forth in the charter and additional responsibilities of the audit committee as they emerge? What updates to the charter might the committee consider as a result of changes in the company?

Charter: Tools and resources

Sample audit committee charter

An audit committee charter can be based on those of a variety of companies and the requirements of the SEC, the NYSE, and Nasdaq.



[View a sample audit committee charter](#)

Sample calendar planning tool

The sample audit committee charter can be used with the sample calendar planning tool to outline what might be covered during each meeting over the course of a year.



[View a sample calendar planning tool](#)

Evaluation and self-assessment

The NYSE listing standards require audit committees to perform an annual performance evaluation, and this responsibility must be included in the audit committee's charter. SEC and Nasdaq listing standards do not require audit committees to assess their performance, but all audit committees should consider how performance assessments could provide information to enhance their performance and processes.

Evaluation and self-assessment: Common practices and considerations

Because there are no specific requirements for how to assess the audit committee's performance, directors have the benefit and the burden of collaborating on an appropriate process. This can be done in consultation with legal counsel, the independent auditor, or third-party facilitators. There are several considerations in shaping the assessment process.

Factors often considered when evaluating the audit committee's effectiveness include:

- Composition of the audit committee, including members' independence from management, qualifications, knowledge, skills, and experience
- The audit committee's understanding of the business, including the risks affecting the organization
- Fulfillment of the audit committee's role, including processes and procedures outlined in its charter
- The audit committee's oversight role as it relates to financial reporting, internal controls, audit functions, ethics and compliance, and other monitoring activities

Conducting the assessment

Select an internal or external coordinator, and establish a timeline for the process. The assessment can be led by a variety of parties, including the committee chair, the board chair or lead independent director, the nominating/governance committee chair, or the general counsel or corporate secretary. Some audit committees find it useful to engage an objective third party to assist with the evaluation process. A combination of these options may be optimal. For example, the committee may choose to engage a third party every two or three years and facilitate the process internally in other years.

Formatting and documenting

The format may consist of evaluation forms, interviews, or a combination of both. The party leading the evaluation may also consider soliciting information from individuals who have significant interaction with the audit committee, including certain members of management. Regardless of who is leading the evaluation, committees should solicit qualitative feedback in addition to any quantitative ratings requested. Because the evaluation may contain information that is critical of the committee or its practices, committees should consult with counsel about the level of documentation that should be provided and retained. Audit committees can also consider extending the process to enable committee members to evaluate the performance of one another.

Addressing the results

The results of the assessment are only beneficial if the committee acts upon the results. A summary of the assessment should be discussed in a private session limited to audit committee members. This allows the committee to discuss the findings and develop a plan for improvement, which is the objective of the assessment. While many committees focus on numerical scores, proper consideration of the qualitative comments received may provide better indicators of areas for improvement. A performance evaluation may highlight the need to examine issues such as the audit committee's composition and qualifications, information related to critical financial reporting areas, members' understanding of complex accounting and financial reporting issues, and meeting agendas. The results of the audit committee's self-assessment also can support the audit committee's oversight of financial reporting. If the self-assessment includes an assessment of individual directors, the party leading the evaluation should consider the most appropriate way to share that information with the individual and the committee chair.

A well-crafted performance assessment benefits audit committee effectiveness in multiple ways. It can help prioritize agendas and meeting structure to focus on the most critical issues and identify topics for future agendas and continuing education sessions. It can also enable fresh considerations regarding the delivery, level of detail, and quality of materials provided by management. Importantly, the assessment brings focus to the committee's composition relative to its current and future needs and challenges and can be a catalyst to committee refreshment, if warranted.

Evaluation and self-assessment: Questions to consider

1. Should an objective third party be engaged to assist in the process for a fresh perspective?
2. Is the grading scale similarly understood by all participants of the evaluation process? Are participants encouraged to provide qualitative feedback?
3. Are the results of the assessment discussed with the committee? Is an actionable plan developed based on identified opportunities and areas of concern?
4. Have we leveraged the assessment results as a catalyst to influence where the audit committee spends its time?
5. Have the results of the evaluation been shared with the board? Has feedback on individual committee members been shared with those committee members?

Evaluation and self-assessment: Tools and resources

Self assessment tool

To assist in self-assessing performance, the audit committee may consider using a tool such as a questionnaire based on leading practices.



[View a sample audit self assessment](#)

Audit committee oversight responsibilities

Audit committee members have a critical role in overseeing many aspects of a company's activities and performance. The audit committee has responsibility for overseeing financial reporting and related internal controls, risk, independent and internal auditors, and ethics and compliance.

The audit committee's oversight responsibilities are described in rules of the Securities and Exchange Commission (SEC) and the exchanges on which a company's shares are listed, notably the New York Stock Exchange (NYSE) and Nasdaq. Responsibilities may also fall to the audit committee indirectly resulting from requirements for independent auditors imposed by the Public Company Accounting Oversight Board (PCAOB). SEC, NYSE, Nasdaq, and PCAOB rules are highlighted throughout, where relevant. Common practices, tools, and resources to assist audit committee members in executing their responsibilities are highlighted throughout as well.

Increasingly, additional responsibilities are also falling to the audit committee, including cybersecurity and environmental, social, and governance (ESG) reporting. According to the [Audit Committee Practices Report](#), a survey conducted by Deloitte and the Center for Audit Quality finds audit committees are being challenged by increased complexity in their core responsibilities as well as scope creep across other areas within their organizations.

Financial reporting

The audit committee, management (including the internal auditor), and the independent auditor each have a distinct role in financial reporting. Management is responsible for preparing the financial statements, establishing and maintaining adequate internal control over financial reporting (ICFR) as well as disclosure controls and procedures (DCPs) for items disclosed in Exchange Act reports, and evaluating the effectiveness of ICFR. The independent auditor is responsible for expressing an opinion on whether the financial statements fairly present, in all material respects, the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles (GAAP), and, when applicable, evaluating the effectiveness of ICFR. In companies that have internal auditors, they have a role in providing objective assurance while acting as advisers to management.

The audit committee is responsible for overseeing the financial reporting process. To do so effectively, committee members should be familiar with the processes and controls that management has established and determine whether they are designed and operating effectively. In carrying out its role of oversight and monitoring, including obtaining the knowledge needed to provide appropriate oversight, the committee may rely on management, the independent auditor, the internal auditor (if any), and any advisers the committee might engage, provided its reliance is reasonable.

Audit committees should understand risk areas and related internal controls. Attention can be focused on a few important areas to remain vigilant in overseeing this, including:

- Complex accounting and reporting areas and how management addresses them
- Significant accounting policies, judgments, management estimates, and their impact on the financial statements
- Any prior internal control issues and how they have been resolved
- The design and components of the company's antifraud and anticorruption compliance programs to confirm that those programs have sufficient oversight, autonomy, and resources
- The company's strategy for managing tax risk, tax controversy, and volatility in the effective tax rate and to consider potential reputational risks associated with tax positions
- Uncertain tax positions taken by the company and their potential impact on financial reporting
- Pending financial reporting and regulatory developments, with a focus on understanding how they may affect the company

NYSE requirements

NYSE listing standards require the audit committee to review major issues regarding accounting principles and the presentation of the financial statements. These include significant changes in the company's selection or application of accounting principles, the adequacy of internal controls, and any special audit steps adopted in response to material control deficiencies. These discussions can be held, generally with management, during the review of the quarterly financial statements to be filed with the SEC. The audit committee is also required to review management's analyses of significant issues in financial reporting and judgments made in preparing the financial statements, including the effects of alternative GAAP methods. This discussion may also be held during the review of the quarterly financial statements.

The audit committee should also review the effects of regulatory and accounting initiatives as well as off-balance-sheet transactions on the financial statements. For example, management and the audit committee should discuss pending technical and regulatory matters that could affect the financial statements, and the audit committee should be updated on management's plans to implement new technical or regulatory guidelines. The review of off-balance-sheet structures should be a recurring agenda item, the frequency of which may depend on the company's operations and preferences. The audit committee should also consider reviewing off-balance-sheet transactions, or at least material ones, before they are executed.

Nasdaq requirements

The Nasdaq listing standards approach is more general, requiring the audit committee to oversee the accounting and financial reporting processes of the company and audits of the financial statements.

Review of filings and earnings releases

The audit committee generally reviews earnings releases, SEC filings containing financial information, and other financial information and earnings guidance provided to analysts, rating agencies, and others. NYSE listing standards require that the audit committee meet to discuss the company's annual audited financial statements and quarterly financial statements with management and the independent auditor. Nasdaq requirements are similar.

The standards require the audit committee to address the committee's responsibility to discuss earnings press releases and the financial information and guidance provided to analysts and ratings agencies. This discussion may be in general terms, and the audit committee may discuss the types of information disclosed and presentations made. The discussion should highlight pro forma or adjusted non-GAAP financial information.

SEC rules regarding the use of non-GAAP financial measures require, among other things, that disclosure of any material information containing non-GAAP financial measures must include the most directly comparable GAAP financial measures, that the GAAP measures must be disclosed with equal or greater prominence, and that GAAP and non-GAAP measures must be reconciled. The SEC scrutinizes the use of non-GAAP measures in response to concerns about their use and prominence. As a result, companies and audit committees should consider examining their use of non-GAAP measures and related controls as well as the disclosure of those measures. Deloitte's publication [A Roadmap to Non-GAAP Financial Measures](#) provides additional information, including ways for a company to assess the appropriateness of its non-GAAP measures and control considerations.

The committee should consider how it will execute these responsibilities to satisfy itself that all information is presented fairly and transparently. This should include a focus on consistency of information, tone, and messaging across all communications.

The audit committee should confirm that an appropriate legal review has been completed to verify disclosures are reasonable, including any obligation to report on known trends and uncertainties. This review should also consider compliance with the company's policies on forward-looking statements and the completeness of any related disclaimers.

Audit committees should also ask questions about the issues raised in SEC comment letters received by the company and management's response, and it should consider the nature of SEC comment letters issued to companies in similar industries.

Review of filings and earnings releases: Questions to consider

1. How have changes in the business impacted accounting and disclosures, including estimates and judgments?
2. Where management has accounted for an estimate from a range of possibilities, why did management select the point in the range? If management selected another point in the range, how would that impact the financial statements?
3. Did the company record all known misstatements? If not, how did management consider materiality, as well as the control impact, of the misstatements?
4. If the company issues earnings guidance, how confident is management in its ability to forecast earnings accurately? Is the disclosure of a range of earnings estimates preferable to a specific target, and has management considered seeking input directly from shareholders regarding the types of forward-looking information they would find meaningful?
5. What DCPs are in place related to the disclosure of non-GAAP measures?
6. Is the non-GAAP measure prepared consistently from period to period in accordance with a defined policy, and is it comparable to that of the company's peers? Is the measure balanced? For example, does it adjust not only for nonrecurring expenses but also for nonrecurring gains?
7. How clear is the audit committee's understanding of how non-GAAP measures impact compensation? To what extent are the audit and compensation committees aligned on this?

Internal control over financial reporting

ICFR is intended to provide reasonable assurance that policies, processes, and procedures governing financial reporting help produce reliable and effective reporting and promote compliance with relevant reporting obligations. While management is responsible for designing, implementing, operating, and maintaining ICFR, the audit committee is responsible for overseeing the system of internal controls and confirming that management has an adequate and well-functioning system of controls. As part of its oversight responsibilities, the audit committee also plays an important role in promoting a culture of behavior that enables reliable and timely reporting.

Audit committees should have periodic interactions with management, the internal auditor, and the independent auditor to receive timely, accurate information regarding the functioning of internal controls. These reports should address the design and operating effectiveness of controls, ongoing monitoring activities, any failures or weaknesses in controls, root causes associated with these failures or weaknesses, and actions to remedy them. Audit committees should also understand the role of outside service providers, such as outsourced payroll, data centers, and others, that have a role in a company's ICFR.

COSO framework

The [2013 Internal Control—Integrated Framework](#) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a formal structure for designing and evaluating the effectiveness of internal controls. The SEC requires companies to use a “suitable framework” for management reporting on ICFR, and it says the COSO framework “satisfies our criteria and may be used as an evaluation framework for purposes of management’s annual internal control evaluation and disclosure requirements.” The framework emphasizes the role of the board—and, by delegation or regulation, the role of the audit committee—in overseeing internal control, which remains an essential aspect of effective governance. The framework highlights:

- The board’s role in the control environment, including clarification of expectations for integrity and ethics, conflicts of interest, adherence to codes of conduct, and other matters
- The board’s assessment of the risk that management could override internal controls and careful consideration of the possibility that management may override such controls
- The establishment and maintenance of open lines of communication between management and the board and the provision of separate lines of communication, such as whistleblower hotlines

Internal control over financial reporting: Questions to consider

1. What is the committee’s level of understanding with respect to key risks and related controls identified by management, the independent auditor, and internal audit?
2. To what extent does the company rely on third-party service providers, and how are controls and processes over these relationships and data flows managed?
3. Have there been any changes in the design and monitoring of controls? How has management ensured that controls have been appropriately redesigned?
4. What new internal controls should be considered if there are shifts in the business operating model, such as a shift to more remote work?
5. How well resourced is the company to adequately perform internal control activities? Has the company engaged specialists, where applicable, in evaluating controls over complex or IT-dependent processes?
6. Has management defined and implemented remediation plans for deficiencies? If those remediation plans span a specific time frame, have temporary compensating controls been implemented to mitigate risk? How is management held accountable for timely remediation?

Related-party transactions

NYSE and Nasdaq listing standards require that an independent body of the board review and oversee related-party transactions. In some instances, this responsibility is assigned to the audit committee. Examples of related-party transactions include transactions between the company and a business affiliated with a director or members of a director's immediate family. Transactions might also occur between an entity and trusts for the benefit of employees, such as pension or profit-sharing trusts that are managed by or under the trusteeship of the entity's management.

While these types of transactions often occur in the normal course of business, transactions among related parties are sometimes associated with the risk of misstatement or omission in financial reporting, whether by error or fraud. Auditors are required to scrutinize related-party transactions that may pose an increased risk of fraud. These include transactions involving directors, executives, and their families; significant unusual transactions that are outside the normal course of business; and other financial relationships with the company's executive officers and directors. Audit committees must be alert to these transactions as part of their oversight responsibilities.

Related-party transactions: Questions to consider

1. What are the business reasons for the transaction?
Are these reasons in line with the company's overall strategy and objectives?
2. Are the terms of the transaction consistent with the market? In other words, would these terms apply to an unaffiliated party?
3. When and how will the transaction be disclosed?
How will investors view the transaction when it is disclosed?
4. What impact will the transaction have on the financial statements?
5. Which insiders could benefit from the transaction, and in what way?
6. Are outside advisers needed to help understand the implications of the transaction?

Proxy disclosures

Various SEC rules and exchange listing requirements address audit- and audit-committee-related information that must be disclosed in the proxy statement, including the audit committee report, and on company websites. SEC rules require companies to disclose the name of each audit committee member and include an audit committee report in the proxy statement. In the report, the audit committee must state whether it has:

- Reviewed and discussed the audited financial statements with management
- Discussed with the independent auditor all matters required under applicable auditing standards
- Received required independence disclosures from the independent auditor
- Recommended to the board that the audited financial statements be included in the company's annual report on Form 10-K

Each issuer is required to disclose in any proxy or information statement pertaining to the election of directors whether the issuer has a standing audit committee, the number of audit committee meetings held during the last fiscal year, and the functions performed by the committee. The proxy statement must also disclose whether the board has adopted a written charter for the audit committee, and if so, include a copy of the charter as an appendix to the proxy statement at least once every three years. Alternatively, the company may post a copy of the charter on its website or reference the availability of the charter on the website by including a link; most companies fulfill this requirement in this fashion.

Companies whose securities are listed on the NYSE or quoted on Nasdaq must disclose whether the audit committee members are independent as defined in the applicable listing standards.

Beyond required disclosures, investors, policymakers, and regulators have shown interest in more detailed disclosure about audit committees, their activities, and their oversight of the relationship with the independent auditor. As these external parties request additional clarification about the related roles and responsibilities, audit committees should consider whether they should enhance disclosures in the proxy statement to take credit for the work they do.

The Center for Audit Quality annually publishes an [Audit Committee Transparency Barometer](#) to highlight observations from disclosures of audit committee oversight in proxy statements.

In addition to voluntary disclosures, regulators may, in some instances, solicit views of audit committees with respect to industry- and company-specific knowledge and experience. Taking the time to engage in formal or informal communication with regulators, industry groups, and independent auditors on these topics could have a substantive impact on the development of standards and rules.

Fee disclosures

SEC rules require the disclosure of fees paid to the independent auditor for the current and prior years as well as a description of the services included in all categories other than audit fees for both years. (The audit committee's duties in this area are further described in oversight of the independent auditor.) The audit committee's preapproval policies and procedures must be described or reproduced. Such disclosures are required in the issuer's Form 10-K as well as the proxy statement, but companies are allowed to incorporate the information into their Form 10-K from their proxy statement.

The disclosure is also required to include the percentage of services in the audit-related fees, tax fees, and all other fee captions that were approved by the audit committee pursuant to its preapproval policies and procedures. Many companies have opted to provide even more information. For instance, many companies subtotal the audit and audit-related fees so shareholders can easily quantify the portion of services that are audit and audit-related in nature.

Because certain institutional investors and proxy advisers have guidelines for proxy vote recommendations related to audit fees, many companies disclose not only the nature of services in the fee categories but also the amounts associated with specific services (for example, in the tax fee category, specifically noting the amount of tax compliance and preparation fees). Issuers should consult with legal counsel to determine the content of the fee disclosure. The SEC's four fee categories are:

Audit fees

This includes fees for services that normally would be provided in connection with statutory and regulatory filings or engagements, including the audit of internal control over financial reporting. This category also may include services that only the independent auditor reasonably can provide, such as comfort letters, statutory audits, attest services, consents, and assistance with documents filed with the SEC. Audit fees may include certain services provided by specialists who assist in the audit, such as tax or valuation specialists, certain accounting consultations in connection with the audit, and similar items that are not billed as audit services and that only the independent auditor reasonably can provide.

Tax fees

This includes fees for all tax services except those related to the audit, such as the review of the tax provision, which would be included in audit fees. Typically, tax fees cover tax compliance, planning, and advice. Tax compliance generally involves the preparation of original and amended tax returns, refund claims, and planning services related to tax payments. Tax planning and tax advice encompass a diverse range of services, including assistance with tax audits and appeals, tax advice related to mergers and acquisitions, employee benefit plans, and requests for rulings or technical advice from tax authorities. The provision of tax services is subject to certain restrictions, including provisions that company personnel must make all management decisions and perform all management functions and that services cannot be provided for an employee with a financial oversight role.

All other fees

This includes all fees paid to the independent auditor for services other than audit, audit-related, or tax.

Audit-related fees

This includes fees for assurance and related services that are performed by the independent auditor, such as audits of employee benefit plans; due diligence for mergers and acquisitions; accounting consultations and audits in connection with acquisitions; internal control reviews, although not the audit of internal control over financial reporting, which is part of audit fees; attest services not required by statute or regulation; and consultation on financial accounting and reporting standards to the extent that such consultation is not necessary to complete the audit in accordance with generally accepted auditing standards (GAAS).

Proxy disclosures: Questions to consider

1. How effectively does the proxy statement describe for investors and other stakeholders the audit committee's oversight responsibilities?
2. How has the role of the audit committee evolved to include areas such as cyber, ESG, enterprise risk management, or others, and how are these changes being disclosed to stakeholders in the proxy statement?
3. To what extent are the qualifications, experiences, and diversity considerations of audit committee members disclosed?
4. How does the audit committee describe in the company's proxy statement the committee's oversight of and engagement with the independent auditor?
5. To what extent does disclosure address issues such as auditor independence, auditor performance, and other matters of interest to investors?

Risk

The SEC considers risk oversight a major responsibility of the board and requires disclosure of its role in this area. Disclosures include whether the entire board is involved in risk oversight, whether certain aspects are executed by individual board committees, and whether the employees responsible for risk management report directly to the board. Such disclosures inform shareholders' understanding of the board's process for overseeing risk.

In some instances, the audit committee may be delegated broad oversight responsibility for risk by the board. The audit committee's primary risk oversight responsibilities are focused on the company's financial risks, enterprise risk management (ERM), and risks related to ethics and compliance. At companies with risk committees, such as large financial institutions that are required to have such committees under the Dodd-Frank Act, the audit committee's oversight responsibilities with respect to risk may differ.

In many companies, the audit committee's risk oversight role has evolved to include additional responsibilities in areas such as cyber, mergers and acquisitions (M&A), and to varying degrees, ESG matters, among others.

With respect to financial risk, the audit committees should understand the company's major financial risk exposures and how management monitors and controls such exposures. The committee can also ask business leaders to periodically provide an overview of their respective businesses, focusing on financial risks and other factors that may impact the financial statements.

Enterprise risk management

The board should prioritize having a well-defined, effective risk oversight function and should clearly define which risks the full board should discuss regularly versus those that can be delegated primarily to a board committee. Boards may have a defined risk governance structure in place, which should be assessed periodically as risks shift or new risks emerge, and consideration should be given to whether committee charters should be updated to align with the defined risk governance structures. The board or the committee tasked with overseeing the enterprise risk program should periodically review the company's top risks with an eye on which board committee and member of management is responsible for each.

NYSE listing standards indicate the audit committee must discuss guidelines and policies to govern the process by which management assesses and manages the company's exposure to risk. This includes discussing the company's major financial risk exposures and the steps management has taken to monitor and control such exposures. The standards acknowledge that many companies manage and assess their risk through mechanisms other than the audit committee and that audit committees should review these processes in a general manner.

Many companies leverage [COSO's ERM framework](#), which promotes a principles-based approach to ERM by helping focus a program on five interrelated components of effective control: governance and culture; strategy and objective-setting; performance; review and revision; and information, communication, and reporting.

A common practice is for management to maintain a list of all enterprisewide risks, which are then mapped to specific board committees with the expertise to oversee them as well as the respective risk owners in management. In many instances, the full board takes direct responsibility for and regularly discusses the company's most strategic risks, which include risks that could disrupt and materially impact the company's business strategy. While it may be appropriate for the audit committee to review the guidelines, processes, and policies management has in place to assess and manage risk, boards should take care not to overburden the audit committee with risk oversight responsibilities.

ERM: Questions to consider

1. To what extent do the board and its committees agree on where primary responsibility lies for overseeing the ERM program and related processes?
2. How clearly are oversight responsibilities for key risks delegated to the board and individual committees? How frequently is this delineation of responsibilities reassessed? How clearly is responsibility for key risks assigned to management, and does each risk have a member of management noted as the risk owner?
3. How often is ERM on the audit committee's agenda, if appropriate, and what information is being provided in support of this? How does the audit committee confirm that new or emerging risks are considered and that board oversight responsibility is clearly defined?
4. How does internal audit's plan align with the key risks identified in the ERM program?
5. How are management and internal audit staying ahead of emerging and evolving risk areas such as technology, cyber, and ESG?
6. How is management considering unlikely but potentially severe risks that could have a significant detrimental effect on the organization?
7. How are risks to the extended enterprise, including third-party risks, assessed?

Fraud risk

The audit committee should be satisfied that the company has programs and policies in place to deter and detect fraud. The committee should work with management to oversee the establishment of appropriate antifraud controls and programs and to take appropriate steps when fraud is detected.

The audit committee should also be satisfied that the organization has implemented an appropriate ethics and compliance program and established a reporting hotline. See [codes of ethics and conduct](#) and [hotlines](#) for more information.

Audit committee members should be aware of three main areas of fraud risk:

- Financial statement fraud, which includes intentional misstatements in or omissions from financial statements
- Asset misappropriation, which may include check forgery, theft of money, inventory theft, payroll fraud, or theft of services
- Corruption, which may include schemes such as kickbacks, shell companies, bribes to influence decision-makers, or manipulation of contracts

The audit committee can help oversee the prevention and detection of financial statement fraud by monitoring management's assessment of ICFR. The audit committee should also be aware of the US Foreign Corrupt Practices Act (FCPA) and other non-US anticorruption laws that may be applicable, such as the UK Bribery Act. As the SEC and Department of Justice note in the [Resource Guide to the FCPA](#), anticorruption compliance "begins with the board of directors and senior executives setting the proper tone for the rest of the company." To that end, the audit committee should:

- Understand the company's obligations and responsibilities regarding anticorruption laws to which it is subject
- Determine whether the company has dedicated appropriate oversight, autonomy, and resources to its anticorruption compliance program
- Understand specific policies and procedures in place to identify and mitigate corruption-related risks
- Discuss with management corruption-related risks that have been identified, including allegations of corruption that may have been received through the company's monitoring and reporting mechanisms, as well as management's plans for responding to such risks
- Monitor any violations, including management's response

Depending on a company's size, the determination of whether the company has dedicated appropriate oversight, autonomy, and resources could include an evaluation of whether an individual is specifically charged with anticorruption compliance and has a direct reporting line to the committee.

Fraud risk: Questions to consider

1. At what levels within the organization are fraud risk assessments performed? For example, are assessments performed at the entity level, at significant locations or business units, on significant account balances, or at the major process level?
2. How do management and the board consider the risk of management override of controls?
3. How has management considered the potential for emerging fraud risks, and what has been the process for developing and assessing the appropriate internal controls?
4. How have shifts in the organization's talent model and the associated job responsibilities affected whether there is an appropriate segregation of duties?
5. How does the company map or link identified fraud risks to control activities designed to mitigate the fraud risks?
6. To what extent has management designed and implemented preventive controls to stop fraud from occurring as well as detective controls to identify the fraud if it occurs?

Cyber risk

Rapid advancements in digital technology and interconnectivity have significantly escalated cyber risk, making it a high priority for management and boards at companies of all sizes and in all industries. The pervasiveness of cyber risk significantly increases concerns about financial information, internal controls, and a wide variety of risks, including reputational risks that can result from a cyber incident. Oversight of a successful cyber risk management program requires proactive engagement and is frequently the responsibility of the full board. In some organizations, a level of oversight may be delegated to the audit committee, or to a risk committee or technology committee, if either exists.

Cyber-related regulatory requirements that are relevant to audit committees are evolving. In early 2022, the SEC issued [proposed requirements](#) to enhance and standardize disclosure regarding cyber risk management, strategy, governance, and incident reporting by public companies. The amendments would require current reporting about material cyber incidents and periodic reporting to provide updates about previously reported cyber incidents. It would also require reporting about policies and procedures to identify and manage cyber risks, the company's board oversight of cyber risk, management's role and expertise in assessing and managing cyber risk, and the board's cyber expertise, if any.

Until the final rules are issued, SEC [guidance from 2018](#) presents the SEC's view on how its existing rules should be interpreted in connection with cybersecurity threats and incidents. The guidance highlights earlier rules to expand on concepts and focus on cyber policies and controls, most notably those related to cyber escalation procedures and the application of insider trading prohibitions. The guidance also addresses the importance of avoiding selective disclosure and considers the role of the board of directors in risk oversight. The release applies to public operating companies, including foreign private issuers, but does not address the specific implications of cyber for other regulated entities under the federal securities laws, such as registered investment companies, investment advisers, brokers, dealers, exchanges, and self-regulatory organizations.

SEC guidance includes the SEC's view on the role of the board in overseeing cyber risk. If the risk is material to a company's business, the discussion of the board's role in risk oversight should include the nature of its responsibilities for overseeing the management of this risk. In the guidance, the SEC says "disclosures regarding a company's cyber risk management program and how the board of directors engages with management on cyber issues allow investors to assess how a board of directors is discharging its risk oversight responsibility in this increasingly important area."

In companies where the audit committee holds some responsibility for cyber risk oversight, the committee should obtain a clear understanding of the specific areas it is expected to oversee. In the audit committee's capacity of overseeing financial risks and monitoring management's policies and procedures, it may have expertise and be asked to play a significant strategic role in monitoring management's preparation for and response to cyber threats, coordinating cyber risk management initiatives and policies, and confirming their efficacy. Those audit committees may take the lead in overseeing cyber threat trends, regulatory developments, and major threats to the company. Other responsibilities may include setting expectations and accountability for management as well as assessing the adequacy of resources, funding, and focus on cyber risk management activities.

For audit committees charged with this oversight, engaging in regular dialogue with C-suite leaders responsible for information technology and security can help the committee determine where attention should be focused. Although cyber risk is frequently on the full board's agenda, audit committees are increasingly receiving regular updates from relevant technology leaders, with technology risk-related topics appearing on almost every meeting agenda. The audit committee chair can be a particularly effective liaison with other groups in enforcing and communicating expectations regarding cyber and financial risk mitigation.

The AICPA's [cybersecurity risk management attestation reporting framework](#) is a resource for expanding cyber risk reporting to help address the marketplace need for greater stakeholder transparency. This reporting framework establishes a standardized reporting mechanism for providing a broad range of users with useful information about an entity's cyber risk management program to support informed and strategic decision-making. Leveraging a unified approach for performing and reporting on an entity's cyber risk management program and related controls could help boards and audit committees effectively execute their oversight responsibilities with respect to cyber risk. See Deloitte's [cybersecurity risk management examination resources](#) for more on cyber reporting and risk management.

Cyber risk: Questions to consider

1. Where does the primary oversight responsibility for cyber risk reside on the board? If responsibility is delegated to the audit committee, has the board considered calling this risk out specifically in the audit committee charter?
2. To what extent does management understand where its most sensitive information is kept and how it is stored, used, and protected?
3. To what extent do management and the board leverage cyber simulations to assess the effectiveness of the organization's cyber response plan and make improvements?
4. How are cyber assessments conducted on the organization's operational technology? Do assessments highlight the business impact of an operational technology breach?
5. How have cyberattacks escalated, and what controls have been reassessed as a result, including those related to an evolving talent model (for example, with a remote or hybrid workforce)?
6. How does the organization assess its cyber risk profile internally or externally to identify areas where digital finance transformation, ESG, and other new or quickly shifting requirements and initiatives may pose risks?
7. How do leadership, structure, capabilities, and resources support a comprehensive focus on cyber risks?
8. How effectively would an enterprise response plan and a ransomware playbook or checklist be implemented quickly if needed?
9. How proactive is management in identifying and complying with all the laws and regulations that govern data capture, use, retention, security, and disposal?
10. How has internal audit considered cyber risk in the development of the internal audit plan?

Mergers and acquisitions

The audit committee has an important role in M&A transactions, both before a transaction in overseeing due diligence and after a transaction in integrating controls and reporting. The audit committee should also review SEC reporting with respect to acquisitions and the accounting for acquisitions in financial statements.

Due diligence

Although due diligence is largely management's responsibility, the audit committee can provide oversight in areas such as risk analysis, internal controls, and the basic financial information on which the terms are based. Weakness in a target's internal control systems can create unpleasant surprises that, in the absence of due diligence, may not be discovered until it is too late. This could be a critical factor when management is required to evaluate post-integration controls in accordance with the Sarbanes-Oxley Act. Audit committee oversight with respect to target financial information can improve confidence that the financial information is accurate and complete. Other areas of due diligence oversight include tax, insurance, ESG, and FCPA compliance.

Audit committees can and should satisfy themselves that the due diligence process is thorough and that the board is fully informed of related risks before the transaction is approved. They can do this in much the same way they address day-to-day matters: ask questions, identify areas of risk to consider, and provide guidance on how to solve problems.

Post-merger integration

SEC rules require public companies to integrate disclosure controls as well as controls over financial reporting following a merger or acquisition. Failure to do so can have significant consequences. Even when both parties have high-quality systems, processes that do not work well together may create control problems, leading to reportable deficiencies or material weaknesses.

While post-merger integration is sometimes overlooked in the excitement of closing a deal, it can be critical to the success or failure of the transaction. The audit committee has a vital role to play. The audit committee can promote a focus on the melding of internal control systems and processes so they are stable upon integration or as soon as possible thereafter. Other areas of audit committee responsibility include oversight of talent integration in the financial and accounting areas and monitoring computer systems and technology platforms for their ability to communicate with each other from the outset.

Audit committees can also consider some additional practices, including performing post-acquisition reviews to evaluate the reliability of initial acquisition assumptions and adjust future acquisitions if necessary.

Mergers and acquisitions: Questions to consider

1. How does the deal affect the future returns on equity and assets as well as the projected growth trajectory of the newly combined entity following the transaction?
2. How has the due diligence preceding a transaction considered risks and compliance associated with environmental, health, safety, legal, and regulatory standards that might affect financial statements of the combined new entity following the transaction?
3. How is management relying on qualified subject matter experts and other advisers as appropriate through the deal process?
4. To what extent has management adopted a post-merger plan for integrating the newly combined business units and processes?
5. To what extent has management considered the importance of the culture and the control environment as part of its integration plan?

Environmental, social, and governance

Rising focus on climate change, social justice, and shareholder activism in recent years has led to a greatly increased focus on ESG issues in corporate boardrooms. Regulation in these areas is evolving. The SEC [issued a proposal](#) in 2022 to require public companies to include extensive climate-related disclosures in their registration statements and periodic reports soon after it issued proposed cyber disclosure requirements. If finalized as proposed, these disclosures would include information about climate-related risks that are reasonably likely to have a material effect on the business, results of operations, or financial condition, as well as certain climate-related financial statement metrics in a note to audited financial statements. Under the proposed rule, certain filers would be required to include an attestation report from an independent attestation service provider covering certain emissions disclosures. This issue of [Heads Up](#) outlines the proposed requirements, which are intended to enhance and standardize climate disclosures.

Audit committees are increasingly engaging in the ESG agenda due to the growing reliance by investors and other stakeholders on ESG disclosures. Additionally, audit committees may have a growing role in overseeing ESG-related activities and metrics. While regulation might formalize the role of the audit committee in the ESG arena, audit committees should engage on whether appropriate internal controls and DCPs exist underlying the ESG information and metrics that companies disclose, whether the audit committee has reviewed disclosures, how management considers ESG strategies and their impact on financial statements, and whether the organization is obtaining assurance on its reporting.

ESG: Questions to consider

1. Where does the primary oversight responsibility for ESG reside on the board, both overall and in terms of its various components (for example, climate, diversity, talent, cyber)? Is there consistent understanding of where and when these elements are being discussed at the board and committee level?
2. How is the organization kept aware of developments in ESG legislation and regulations in relevant jurisdictions for the business?
3. How is management considering the organization's environmental goals and related activities for SEC reporting purposes (for example, the business, risk factors, and results of operations sections in SEC filings)?
4. What climate-related information is currently gathered and reported? What level of assurance is currently obtained over this information? What additional information (if any) would need to be developed or gathered (including for disclosure in the audited financial statements)?
5. How does the company evaluate the materiality of climate-related disclosures? What systems and processes are in place for gathering the necessary information for determining whether such disclosures are material?
6. If the company issues a sustainability report, to what extent has the audit committee reviewed the report prior to issuing, and how has management walked through the key assumptions made and the basis for the metrics and goals disclosed?
7. If the organization discloses climate-related information in the annual report that contains or accompanies the financial statements, such as in the management discussion and analysis section, how consistent are those disclosures with the audited financial statements? What internal controls over financial reporting are in place to address the disclosure that would be required in the audited financial statements?

Audit

Oversight of the independent auditor, as well as the internal auditor at companies that have this function, is among the audit committee's most important oversight responsibilities. Audit committees are responsible for overseeing the performance and quality of the audit as well as the independence of auditors.

Oversight of the independent auditor

Audit committees of listed companies are directly responsible for the appointment, compensation, and oversight of the independent auditor, including the resolution of any disagreements with management. The audit committee, management, the independent auditor, and the internal auditor should work together in a spirit of mutual respect and cooperation.

Audit committees are required to own the relationship with the independent auditor, focusing on qualifications, performance, independence, and compensation. Expectations should be clear regarding the nature and method of communication and the exchange of insights. An annual meeting with the independent auditor and regular dialogue beyond audit committee meetings can promote effective interaction.

The audit committee and the independent auditor typically meet at least quarterly to thoroughly discuss a wide variety of matters, including the company's financial reporting, internal controls, and the audit, from planning to report issuance. Audit committees should proactively engage with the lead audit partner and meet periodically with specialists in areas such as tax, information technology, and others, as needed. These discussions should also include educational topics and sharing of insights beyond the audit. The audit committee can provide the independent auditor with formal evaluations and regular feedback.

The NYSE corporate governance rules require the audit committee to participate in periodic private sessions with management, independent auditors, and internal audit. Executive sessions with the independent auditor facilitate open communication and help to identify concerns. Although executive sessions are not explicitly required for Nasdaq-listed companies, it is common practice for audit committees to hold these sessions.

Auditor independence

SEC and PCAOB rules govern the independence of accountants who audit or review financial statements and prepare attestation reports filed with the SEC. The rules recognize the critical role of audit committees in financial reporting, their unique position in monitoring auditor independence, and their direct responsibility for the oversight of the independent auditor. Although most audit firms are rigorous in monitoring and enforcing these independence requirements, it is important that audit committee members be cognizant of them and understand that independence is a dual responsibility with the auditor. The SEC independence rules address the following issues related to registrants:

Financial relationships

Independence is impaired if the audit firm or certain of its people have a direct or material indirect financial interest in an audit client.

Employment relationships

Independence is impaired if a current partner, principal, shareholder, or professional employee of the independent auditor has an employment relationship with or serves as a member of the board or similar management or governing body of the audit client. Former partners, principals, shareholders, or professional employees of the independent auditor cannot be employed in an accounting role or financial reporting oversight role—one who exercises more than minimal influence over the contents of accounting records or prepares them—at an audit client unless they are fully separated from the independent auditor, financially and otherwise. Even if this separation is achieved, former members of the audit engagement team for an issuer cannot take a financial reporting oversight role for the issuer before completion of one annual audit subsequent to the engagement period when the individual was a part of the engagement team. Employment restrictions also apply to certain close family members of the independent auditor's personnel.

Business relationships

An independent auditor cannot have a direct or material indirect business relationship with an audit client or with persons associated with the audit client in a decision-making capacity, such as an audit client's officers or directors that have the ability to affect decision-making at the entity under audit or beneficial owners (known through reasonable inquiry) of the audit client's equity securities where such beneficial owner has significant influence over the entity under audit. This does not preclude the independent auditor from providing permissible services to the audit client or purchasing goods or services from the audit client as a consumer in the ordinary course of business, commonly known as a vendor business relationship.

Non-audit services provided by auditors

There are 10 categories of services that impair the auditor's independence if provided to an audit client. These prohibited services include bookkeeping or other services related to accounting records or financial statements of the audit client; design and implementation of financial information systems; appraisal or valuation services, fairness opinions, or contribution-in-kind reports; actuarial services; internal audit outsourcing; management functions; human resources; broker-dealer, investment advisory, or investment banking services; legal services; and expert services.

Permissible non-audit services, if preapproved by the audit committee, include due diligence for mergers and acquisitions, internal control reviews, and tax services that are not prohibited by the PCAOB. In certain limited circumstances, the independent auditor may provide services related to the bookkeeping, design, and implementation of financial information systems; appraisal or valuation services; actuarial services; and internal audit outsourcing to a non-client affiliate of an audit client if "it is reasonable to conclude that the results of these services will not be subject to auditing procedures during an audit of the audit client's financial statements." This is referred to as the "not-subject-to-audit" exception under SEC Rule 2-01(c)(4).

The audit committee's administration of the audit engagement

The audit committee must preapprove permissible audit and non-audit services to be provided to the issuer and its subsidiaries. Preapproval can be obtained directly or based on policies and procedures established by the audit committee that provide guidance based on the type of service. In either case, the audit committee should be informed of the service, and the committee cannot delegate its preapproval responsibilities to management. It can, however, delegate preapprovals to one or more members of the committee if the preapprovals are reported at the next scheduled meeting of the full committee.

PCAOB rules provide that an audit firm seeking preapproval of tax services or non-audit services related to ICFR must:

- Describe in writing the scope of the service. For tax services, the audit firm must describe the fee structure for the engagement, any side letter or other amendment to the engagement letter, or any other agreement between the firm and the audit client related to the service; and any compensation arrangement or other agreement between the registered public accounting firm or an affiliate and any person other than the audit client with respect to promoting, marketing, or recommending a transaction covered by the service.
- Discuss with the audit committee of the issuer the potential effects on the firm's independence.

Contingent fees and commissions

Independence is impaired if the independent auditor provides any service or product to an audit client for a contingent fee or a commission, or if the auditor receives a contingent fee or commission from an audit client. The PCAOB has discretion to prohibit any service that it determines by regulation to be impermissible. In addition to prohibiting the independent auditor from providing a service or product to an audit client for a contingent fee or commission, the PCAOB has issued rules prohibiting the auditor from marketing, planning, or opining in favor of the tax treatment of a confidential or aggressive tax transaction as well as providing tax services to persons in a financial reporting oversight role for an audit client.

Partner rotation

The lead audit partner and engagement quality review partner are required to rotate after five years, at which time they are subject to a five-year time-out period. Other audit partners who are significantly involved with senior management or the audit committee or who are responsible for decisions on accounting matters that affect the financial statements must rotate after seven years and are subject to a two-year time-out period. This includes audit partners who serve as the lead partner for significant subsidiaries representing 20% or more of an issuer's revenues or assets. Other specialty partners, such as tax partners, are not required to rotate.

Compensation of audit partners

Under the SEC's rule, an auditor is not independent if, at any point during the audit and professional engagement period, any audit partner earns or receives compensation from selling products or services to provide the audit client with any services other than audit, review, or attest services.

For the purpose of this restriction, the SEC defines the term "audit partner" as the lead and concurring partners and other partners on the engagement team who have responsibility for making decisions on significant auditing, accounting, and reporting matters that affect the financial statements or who maintain regular contact with management or the audit committee. This includes all audit partners serving the client at the issuer or parent, with the exception of specialty partners, as well as the lead partner at subsidiaries whose assets or revenues constitute at least 20% of the consolidated assets or revenues.

Auditor communications

The NYSE, Nasdaq, and PCAOB indicate communications that are required between the audit committee and the independent auditor. Many of these communications focus on the responsibility of the audit committee to oversee the independent auditor.

NYSE requirements

The audit committee is required to communicate with the independent auditor in several ways. These include:

- Obtain and review a report by the independent auditor regarding independence, internal quality control procedures, and material issues raised by recent internal quality control review, peer review, or by governmental or professional authorities at least annually.
- Meet with the independent auditor to review and discuss the company's annual audited financial statements and quarterly financial statements, including the company's unaudited disclosures under management's discussion and analysis of financial condition and results of operations.
- Periodically meet separately with the independent auditor, management, and the internal auditor or other personnel responsible for the internal audit function.
- Review with the independent auditor any audit problems or difficulties and management's response.
- Set clear hiring policies for employees or former employees of the company's independent auditor.
- Assist board oversight of the auditor's qualifications and independence as well as the performance of the company's internal audit function and independent auditor.

Nasdaq requirements

Nasdaq listing standard requires the audit committees of listed companies to obtain a formal written statement from the independent auditor describing all relationships between the auditor and the company. This is consistent with the PCAOB ethics and independence requirements. The standard requires audit committees to actively engage in a dialogue with the auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditor and take, or recommend that the full board take, appropriate action to oversee the independence of the independent auditor.

PCAOB requirements

The PCAOB's requirements encompass items the independent auditor is required to communicate to the audit committee as described in SEC Regulation S-X. Some communications between the auditor and the audit committee are driven by standards the auditor must follow in conducting the audit. There are a number of PCAOB standards that require communications with the audit committee, most notably AS 1301: *Communications with Audit Committees*. The communications under this standard can be oral or written, unless there is a specific requirement to put the communications in writing, but they must be made in a timely manner and prior to issuance of the auditor's report. The standard addresses communications relevant to various phases of the audit, from the auditor's engagement through the issuance of the auditor's report. It also requires communications relevant to various aspects of the company's accounting and reporting, as well as any difficulties encountered in performing the audit and disagreements between the auditor and management.

Critical audit matters (CAMs). The independent auditor is required to disclose to the audit committee and in its audit report matters communicated or required to be communicated to the audit committee that relate to accounts or disclosures that are material to the financial statements and that involve especially challenging, subjective, or complex auditor judgment. A CAM may relate to a component of a material account or disclosure, or it may not necessarily relate to a single account or disclosure but could have a pervasive effect on the financial statements. The independent auditor should provide a draft of the auditor's report to the audit committee and discuss the draft with the committee prior to report issuance.

Evaluation of the independent auditor

Inherent in the audit committee's duty to appoint, compensate, and oversee the independent auditor is an expectation that the audit committee will evaluate the auditor. The NYSE listing standards require the audit committee to review a report by the independent auditor describing its quality controls, results of investigations, and independence. After reviewing the report and the independent auditor's work throughout the year, the audit committee is expected to be in a position to evaluate the auditor's qualifications, performance, and independence. The evaluation is expected to include a review and evaluation of the lead partner of the independent auditor, considering the opinions of management and the company's internal auditor or other personnel responsible for the internal audit function.

Evaluation factors

Practices for evaluating the independent auditor range from highly formalized processes with extensive documentation to more informal assessments. Factors the audit committee may consider in developing the evaluation process include:

- **Frequency and timing of the evaluation.** Many audit committees perform the evaluation annually, immediately following the issuance of the Form 10-K and in conjunction with their decision to reappoint the independent auditor.
- **Parties involved in the assessment.** The SEC does not explicitly require the audit committee to formally evaluate the independent auditor. However, many committees conduct some form of evaluation to make decisions on the auditor's initial appointment or annual reappointment. While the audit committee is responsible for the appointment, compensation, and oversight of the independent auditor, it may not be practical for the audit committee to oversee and coordinate the entire evaluation. The party responsible for coordinating the evaluation should obtain information from the audit committee, senior financial management, and the internal auditor. Depending on the size and structure of the company, it may be appropriate to obtain input from the management of significant operating locations or business units.
- **Form and nature of the assessment.** Some independent auditors provide assessment questionnaires for evaluating client service. Audit committees can use these questionnaires, tailored to fit their needs, or create their own. The assessment can be done by having the relevant parties complete the questionnaire in writing or by holding interviews. Audit committees may also discuss the experience the committee and others at the company have had in working with the independent auditor.
- **Assessment criteria.** The criteria for evaluating the independent auditor vary. Audit committees may consider characteristics of the audit firm and the engagement team. Common criteria specific to the engagement team include technical competence; industry knowledge; frequency and quality of communication; cohesiveness as a team; demonstrated independence, objectivity and professional skepticism; and support provided to the audit committee in fulfilling its responsibilities. Common criteria focused on the audit firm include size, financial strength and stability, presence in key markets, approach to professional development, technological capabilities, nature of the audit approach, quality of thought leadership, and eminence in the marketplace. The results of the PCAOB inspection process and peer reviews may also be considered in the evaluation.

The Center for Audit Quality has issued an [External Auditor Assessment Tool](#) for audit committees. The tool can be used by audit committees to inform their evaluation of the independent auditor.

Audit innovation

With advances in technology, many auditors are turning to innovation to enhance quality and add value to the audit. In understanding how the independent auditor is innovating, the audit committee may consider several issues, including how the independent auditor is leveraging innovation to enhance audit execution, what investments the independent auditor is making in audit innovation, and how those investments translate to enhanced audit quality and value for the company. Audit committees can ask auditors to explain what insights auditors are able to provide about the company and its financial and internal controls processes through the use of new technologies, including audit analytics.

Oversight of the independent auditor: Questions to consider

1. Does the independent auditor have sufficient knowledge and experience to address the risks and types of transactions managed by the company, and are the auditor's specialists engaged where applicable?
2. Does the independent auditor communicate to the committee in a clear, succinct, and timely manner? Is communication focused and prioritized on the right areas?
3. Is the committee engaging in an ongoing dialogue, both formal and informal, with the independent auditor to discuss topics beyond required communications? Does dialogue include, for example, perspectives on management and tone at the top, business trends, and the regulatory environment in financial reporting and standard setting?
4. In instances where the company's needs are evolving, is the independent auditor also evolving with appropriate talent to serve the company?
5. How does the independent auditor evaluate the reasonableness of significant estimates made by management? How does the auditor challenge these estimates?
6. What top three areas did the independent auditor spend the most time discussing with management during the reporting period? How satisfied is the committee that management is cooperative and forthcoming with requested information and documentation in these areas and that management was able to produce the information requested?
7. Does the independent auditor use technology such as automation, data analytics, and machine learning to improve the effectiveness and efficiency of its audits?
8. Is the independent auditor delivering value and insights to management and the committee beyond the audit?
9. Does the committee meet separately with the independent auditor outside the presence of management? With individual members of management? With the internal auditor?

Oversight of internal auditors

Most public companies have an internal audit function, whether in-house, co-sourced, or outsourced. An internal audit function is not required by the SEC or Nasdaq, but it is required by NYSE listing standards. Whether a company staffs its own internal audit function or outsources it to a third party, audit committees are responsible for providing effective oversight.

NYSE requirements

NYSE listing standards require companies to have an internal audit function. Audit committees are required to oversee the internal audit function and to note this responsibility in their charters. Specific requirements include:

- The audit committee charter must include oversight of the internal audit function as one of its purposes.
- The audit committee's regular report to the board should include issues involving the performance of the internal audit function.
- The audit committee must meet separately with the internal auditors.

Expectations of internal audit functions have [evolved dramatically](#) over time, with internal audit often asked to offer an advisory perspective. The expectations for internal audit functions vary by organization but may include:

- Objectively evaluating whether risks relating to the achievement of the company's strategic objectives are appropriately identified and managed
- Monitoring and reporting on the health of the company's controls covering financial, operational, regulatory, reputational, technological, and governance risk, including offering guidance regarding the internal/compliance controls aligned with these risk areas
- Evaluating whether results of operations or programs are consistent with established goals and objectives and acting as a catalyst for positive change in processes and controls
- Providing insight in the areas of controls and risk management to assist in the audit committee's assessment of the efficacy of programs and procedures
- Coordinating activities and sharing perspectives with the independent auditor

An effective relationship between the audit committee and internal auditors is fundamental to the success of the internal audit function. Internal audit should have direct access to the audit committee, optimally with the chief audit executive (CAE) reporting directly to the audit committee and administratively to senior management. In this reporting structure, internal auditors can remain structurally separate from management, enhancing independence and objectivity. This also encourages the free flow of communication on issues and promotes direct feedback from the audit committee on the performance of the CAE. The audit committee should confirm that internal auditors have appropriate independence and stature and are visibly supported by senior management throughout the organization. The audit committee should support the CAE, providing guidance and assistance when the CAE reports potential management lapses.

Nasdaq requirements

Although Nasdaq companies are not required to have an internal audit function, for those that do, oversight of internal audit is often one component of overseeing accounting and financial reporting.

The audit committee and the CAE should have a strong relationship characterized by regular and open communication. The audit committee should challenge the CAE and the internal audit department by setting high expectations, communicating those expectations clearly, and holding the department accountable for meeting them. Holding regular executive sessions with the CAE is common, and it is required for NYSE-listed companies. The audit committee should actively participate in discussing goals and evaluating the performance of the CAE. These responsibilities should not be delegated solely to the CEO or CFO.

It is important for the audit committee to assess whether internal audit's priorities, such as monitoring critical controls and developing an audit plan focused on risks identified in the ERM program, are aligned with those of the audit committee. At some companies, internal audit evaluates and considers suggestions to improve operations and processes. The audit committee should play a role in helping determine the balance between compliance and operational audits, as appropriate.

The audit committee should understand and approve the internal audit plan and determine if the CAE has a sufficient budget and related resources to execute against it. As part of this review, the committee should evaluate the enterprisewide ERM program and the alignment of risks with the internal audit plan. The audit committee should also evaluate the progress and results of the internal audit plan against the original plans, the extent to which the plan benefits from emerging technology, and how it adapts to changes in risks.

The committee can perform annual evaluations of the CAE and understand internal audit staffing, funding, succession planning, and adequacy of resources. In determining adequacy of resources, audit committees often consider the structure (for example, whether the group is in-house, co-sourced, or outsourced), and whether the CAE and staff are adequately compensated. The committee can consider performing peer benchmarking of the company's internal audit function to compare relevant metrics.

Oversight of internal auditors:

Questions to consider

1. How is the internal audit plan aligned to the primary risks of the organization and other assurance activities? To what extent are internal audit's risk assessment processes linked to the company's ERM activities?
2. How flexible and dynamic is internal audit in addressing new risks promptly and meeting the needs of the audit committee? How does the mix of experience and capabilities in the internal audit team—for example, in areas such as technology and emerging risks—meet the current needs of the company?
3. How effective is internal audit in using advanced technologies, such as data analytics, to improve audit quality?
4. How does internal audit organize or perform peer reviews or self-assessments and report the results to the audit committee?
5. How does the internal audit function comply with the International Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors?
6. To what extent does the internal audit function have and demonstrate the level of independence needed to execute its responsibilities properly? How does internal audit's reporting structure within the company support independence and enable internal audit to perform effectively?
7. How timely does internal audit report issues and address them with management? How are issues identified and reported by internal audit highlighted for the audit committee? To what extent are they actionable, and how is the progress of remediation tracked and reported?

Ethics and compliance

The audit committee can promote a strong focus on tone at the top, maintaining a positive culture, and adherence to the company's code of ethics, thus promoting a culture of compliance. The committee should meet periodically in executive sessions with those responsible for overseeing ethics and compliance matters and work with management to confirm that the company's code of ethics or conduct complies with the applicable requirements. Companies may update the code in response to new issues or situations. Legal counsel should be consulted on modifications to the code.

Communication and training are critical to fostering an ethical culture. The code should be available to everyone in the organization, perhaps through inclusion on the company's intranet site and in the employee orientation program and manual. Some companies require individuals, including directors, to sign an annual certification noting that they have read, understood, and complied with the code. If an employee refuses to sign the certification, committees should encourage companies to take prompt and appropriate disciplinary action, up to and including termination. Communication of disciplinary actions taken in response to code violations is a common way of communicating to employees that violations are taken seriously.

As part of its oversight of ethics and compliance, the committee should also pay close attention to the risk of management override of controls as well as risk mitigation mechanisms. In addition, the committee can prioritize initiating internal or independent investigations on matters within the committee's scope of responsibility.

Codes of ethics and conduct

The SEC, NYSE, and Nasdaq require companies to have a code of ethics or a code of conduct. Each code of conduct must provide for prompt and consistent enforcement, protection for individuals who make good faith reports of questionable behavior, clear and objective standards for compliance, and a fair process for addressing violations. Both the NYSE and Nasdaq listing standards permit companies to have more than one code of conduct as long as all directors, officers, and employees are covered by a code. For example, some companies have developed a separate code for directors, whose roles and responsibilities differ from those of officers and other employees.

SEC requirements

The SEC requires registrants to disclose whether they have written codes of ethics that apply to their principal executive officers, principal financial officers, principal accounting officers or controllers, or individuals performing similar functions. If they have not written such a code, they must explain the reason. Registrants must disclose any changes to or waivers from the code of ethics that apply to the CEO or senior financial officers, generally within four business days after it amends its code of ethics or grants a waiver. The NYSE and Nasdaq listing standards have the same four-day rule.

The SEC rule defines a code of ethics as a written standard that is reasonably designed to deter wrongdoing and to promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest in personal and professional relationships
- Full, fair, accurate, timely, and understandable disclosure in reports and documents that a registrant files with or submits to the commission and in other public communications
- Compliance with applicable governmental laws, rules, and regulations
- Prompt internal reporting of violations of the code to an appropriate person or persons identified in the code
- Accountability for adherence to the code

Companies must include these disclosures in their annual reports and must make the code of ethics available to the public.

NYSE requirements

NYSE listing standards require a code of conduct that covers not only senior financial officers but all employees. The websites of NYSE-listed companies must disclose the code of conduct applicable to employees, directors, and officers. Companies can determine their own policies, but the code must contain the items listed in NYSE 303A.10, only some of which are required by the SEC:

- **Conflicts of interest.** A conflict of interest occurs when an individual's private interest interferes in any way—or even appears to interfere—with the interests of the corporation as a whole.
- **Corporate opportunities.** Employees, officers, and directors owe a duty to the company to advance its legitimate interests, not their personal interests, when the opportunity to do so arises.
- **Confidentiality.** Employees, officers, and directors should maintain the confidentiality of information entrusted to them by the listed company or its customers, except when disclosure is authorized or legally mandated.
- **Fair dealing.** Each employee, officer, and director should endeavor to deal fairly with the listed company's customers, suppliers, competitors, and employees.
- **Protection and proper use of listed company assets.** All employees, officers, and directors should protect the listed company's assets and ensure their efficient use.
- **Compliance with laws, rules, and regulations.** Companies should proactively promote compliance with laws, rules, and regulations, including insider trading laws.
- **Encouraging the reporting of any illegal or unethical behavior.** The listed company should proactively promote ethical behavior, encouraging employees to talk to supervisors, managers, or other appropriate personnel when in doubt about the best course of action in a particular situation.

Nasdaq requirements

Nasdaq listing standards require public disclosure of a code of conduct applicable to all employees, officers, and directors. Nasdaq's criteria for the code of conduct are consistent with the SEC's requirements.

Codes of ethics and conduct: Questions to consider

1. How does the reporting process keep the audit committee informed of ethics and compliance issues as well as the actions taken to address them? How regularly does the committee discuss ethics and compliance?
2. How frequently does the committee hear directly from the person who has day-to-day responsibility for ethics and compliance matters? To what extent does the committee consider holding these discussions in an executive session?
3. How systematically does the company scrutinize the sources of ethics and compliance failures and respond to them?
4. How does management act on reports? What evidence is captured regarding prompt, appropriate, and consistent disciplinary measures?
5. How does the audit committee engage external advisers to conduct independent investigations?
6. What ongoing monitoring and auditing processes are in place to assess the effectiveness of the ethics and compliance program?

Hotlines

A thorough, independent, and objective process should be established by management and the audit committee for investigating complaints related to ethics and compliance. SEC regulations and the NYSE and Nasdaq listing standards require the audit committees of listed companies to establish procedures for:

- Receiving, retaining, and addressing complaints regarding accounting, internal controls, or auditing matters, whether from internal or external sources who wish to remain anonymous, as well as reporting a range of compliance matters, including violations of the code of conduct and allegations of management fraud or corruption
- The confidential, anonymous submission of employee concerns regarding questionable accounting or auditing matters

Companies use various procedures, but the most common method of receiving tips from both inside and outside the organization is through a telephone and web-based hotline administered by an internal department or a third party. If the hotline is administered internally, operators should be trained on where to direct questions or complaints, including those related to human resources, with continuous coverage provided. An anonymous reporting option should be available. Telephone operators working in human resources, customer service, and investor relations should be prepared to answer questions on how to submit concerns and complaints regarding financial reporting.

Employees should be made aware of reporting channels and encouraged to report known or suspected violations of laws or company policy. This information can be included in the code of ethics, the employee handbook, human resources orientation, ethics training, and periodic communications. Instructions for submitting questions or complaints can be posted in company facilities and on intranet sites. The company's public website is a natural vehicle for communicating ethics and compliance procedures to individuals outside the organization.

The audit committee should work with management to confirm that the appropriate members of management are aware of questions or complaints received from internal sources and third parties, including vendors, through the various reporting methods available. Responsibility for investigating questions or concerns and reporting back to the audit committee often falls on individuals in the ethics and compliance, internal audit, legal, or risk management departments.

The audit committee should also establish expectations with respect to the type of complaints that will be reported to the committee and how complaints will be communicated. Some complaints may warrant immediate communication, such as those involving senior management, significant reputational issues, or significant dollar amounts. In addition to these immediate reporting situations, the audit committee should receive a regular summary of complaints with root-cause analyses, their resolution, and the steps taken to enhance internal controls and avoid similar violations in the future. Reporting can include trends, such as any increase in reports on a specific topic, department, or person. The audit committee should also determine which complaints warrant a discussion with the full board.

Under the SEC's whistleblower programs, employees with knowledge of potential securities fraud who report original information to the government or a self-regulatory organization can receive 10% to 30% of monetary sanctions if the enforcement action results in fines of at least \$1 million. Whistleblowers are not required to report issues first through internal company channels; however, those who do are still eligible for the reward if the company reports the problem to the government or if the whistleblower does so within 120 days of notifying the company.

Companies with operations in different countries should be careful to comply with those countries' laws, as they may impose requirements, restrictions, and prohibitions different from those applicable in the United States.

Hotlines: Questions to consider

1. Does the committee understand how hotlines are evaluated, tested, and audited? To what extent do hotline processes and controls confirm that calls are received, recorded, and managed in a consistent, confidential, accurate, and timely manner?
2. Has the hotline and whistleblowing process been evaluated and benchmarked by an independent third-party expert or consultant?
3. Has the audit committee, directly or through the internal audit function, made an anonymous report to the whistleblower system alleging financial reporting fraud or other wrongdoing by senior management, to test the integrity of the flow of communications directly to the audit committee without management intervention?
4. Does the level of alleged or suspected fraud and other violations of organization policies reported through the whistleblower system or other channels suggest that the tone at the top or the tone communicated by management may need strengthening?
5. Are there regular companywide trainings and communications in place for employees to learn about code of ethics, hotlines, and whistleblower functions?

Audit committee effectiveness

Given the scope of responsibilities of audit committees, their agendas are often overflowing. Careful prioritization and planning are critical to enable the committee to fulfill its responsibility to provide effective oversight.

In addition to putting processes in place to fulfill the requirements and recommendations noted in the previous sections, audit committees often implement certain practices to help them operate more effectively. Some of these leading practices are described in this section. These recommendations are not all-inclusive, and certain activities discussed in this section may be the responsibility of the full board or another committee.

Audit committees can also consider insights contained in the [Audit Committee Practices Report](#), a collaborative effort between Deloitte and the Center for Audit Quality to provide information related to issues audit committees are facing and how peers may be responding. The survey results and related analysis can serve as a benchmarking resource for audit committees to gauge their own practices.

Preparing for meetings

Audit committee meetings should be held at least quarterly, and more frequently if necessary, to provide adequate time and attention to important matters. Maintaining a committee calendar to identify topics that should be covered at each meeting can help confirm that required matters are addressed in the appropriate time frame. Using meeting time effectively is important to provide appropriate oversight. Audit committees can take several measures to prepare for meetings and promote effective use of meeting time.

Assess the frequency and timing of meetings

The committee should evaluate whether quarterly meetings are adequate or if meetings need to be more frequent. Annual review of a calendar that incorporates required activities can help confirm that requirements laid out in the charter are covered at the appropriate times of the year. Consulting with management, independent auditors, and internal auditors when updating the calendar can also help confirm that necessary topics are covered. Committees can consider having legal counsel review the charter and calendar to confirm that requirements are appropriately covered.

Assess the format and length of meetings

The committee should periodically evaluate the format and length of meetings to confirm they address the needs of the organization. While virtual or hybrid meetings have become more common, the committee should consider how the use of technology is fostering dialogue and participation among members to promote robust engagement. The committee can also advocate for rotating board and committee meeting locations periodically to stimulate new ideas and discussion. This approach can also allow committee members to visit varied company locations where they can engage with more members of management and see operations firsthand, which may be important for understanding and overseeing the culture of the business.

Develop agendas focused on priority areas

A well-planned and well-managed agenda is critical in helping the committee stay focused. Agenda development is typically assigned to one member of management, who should consult with the audit committee chair, independent auditors, internal auditors, and other members of management on agenda topics. The agenda should be aligned with responsibilities outlined in the charter and calendar, and the audit committee chair should approve the agenda. While having a member of management oversee agenda development is helpful, the agenda should cover the areas the audit committee chair and members consider important. Previous agendas should not be repurposed without additional discussion.

As a leading practice, highest priority items should be at the beginning of the agenda. This may mean that the position of a particular topic may change from meeting to meeting. A consent agenda, which groups routine items into a single action, can be a useful tool for managing more common topics that may not require discussion. Members can still raise questions they may have with respect to individual items. The length of each agenda item should be determined in advance to keep discussions focused, and the chair should be prepared to enforce the allotted times, as appropriate, to allow time for the committee to discuss everything on the agenda.

When considering meeting agendas over the course of the year, they should be flexible enough to address issues that arise between meetings and allow time for critical discussion by committee members. Time can also be allocated on the yearly agenda for educational topics or deep dives to help committee members stay informed of emerging and evolving risks. These educational sessions can be led by management and/or involve external specialists.

Design materials to drive effective discussion

As demands on audit committees increase, it is important for meeting materials to contain timely, relevant information that facilitates discussion and effective decision-making. Meeting materials should be aligned to priority areas, with executive summaries for each section highlighting critical issues and discussion points, key metrics, and decisions needed. The materials should clearly identify the nature of the information being presented (e.g., informational, decision needed) and what actions are expected of the committee.

Pre-reads should be comprehensive, but not exhaustive, with respect to operational details. Limiting the number of slides or pages presented during meetings can help the committee focus on key messages and takeaways while also allowing adequate time for questions and discussion.

Management and others presenting financial information should highlight key changes from the prior period and balances involving judgment to focus the discussion on areas that warrant the audit committee's attention, including those involving close calls or more subjectivity. The materials should contain not only information on past performance but also insight on future issues of importance.

Committees should consider assigning a single point of contact to address committee members' questions as they review pre-read materials. Publishing pre-read materials on a portal is a leading practice, and all materials should be provided to the committee with sufficient time to review prior to the meeting.

Meet with key stakeholders in advance

The audit committee chair should meet with key stakeholders in advance of the audit committee meeting to understand key issues and topics that will be raised and alert stakeholders to potential questions or challenges that might come from the committee. Pre-meetings often consist of one-on-one touchpoints between the chair and those who are integrally involved in the upcoming meeting—most often the CFO, controller, independent auditor, and chief audit executive, as well as the chief legal officer. Pre-meetings can help make the meeting time more efficient and prevent surprises. The pre-meeting is also a good forum for the chair to provide feedback on the pre-read materials that might warrant updates prior to the meeting. Depending on the outcome of the pre-meetings, the chair may consider providing an update on that discussion, perhaps by email, to the other committee members in advance of the meeting.

Adequately prepare for meetings

Audit committee members are accountable for reading all materials in advance of meetings so they come to meetings informed and prepared to participate in discussions.

In addition to reading the materials, committee members should stay informed on emerging risks, regulatory shifts, and industry events, understanding how they may impact the organization. This level of engagement throughout the year, not just in advance of meetings, is important as organizations navigate increasingly complex reporting requirements and rapidly evolving changes in the external environment on multiple fronts.

Managing meetings

Meetings are a critical means to achieve the interaction and collaboration that are essential for audit committees to operate effectively. Audit committees can optimize their use of meeting time by encouraging discussion and engagement during meetings and by making appropriate use of executive sessions.

Encourage relevant people to participate in meetings

To conduct effective meetings, it is important for audit committees to be deliberate about who attends meetings and encourage their active participation. The committee should have the ability to invite anyone it regards as relevant to provide updates and address specific points or concerns.

Periodically inviting specialists such as cyber experts, business unit leaders, and actuaries can enhance the committee’s knowledge of specific matters and provide valuable insight in identifying and addressing risks. Inviting external specialists can also help both management and the committee benefit from external perspectives. Committees can consider pairing these external specialists with management counterparts for presentations to the committee. To facilitate succession planning for finance and internal audit, the committee should invite potential successors to present during meetings to give the committee a firsthand view of their potential.

Promote candid discussion and engagement in meetings

Open dialogue and candid discussions are critical for audit committees to operate effectively. It is important for committee members, management, and auditors to feel comfortable posing questions and openly expressing their views. Audit committee members should focus on constructive challenges with questions to management and auditors such as: Where were the hard calls? What were the gray areas? What keeps you up at night? Committee members should follow up if they don’t get satisfactory answers.

To promote dialogue, presenters should assume that everyone has read the pre-read materials (i.e., the discussion begins where pre-reads end) and should be discouraged from presenting and reviewing each slide during the meeting. Presenters should generally limit presentations to one-third of the allotted time, leaving two-thirds of the time for discussion and questions.

Conduct executive sessions at every meeting

Executive sessions give audit committees an opportunity to interact with key stakeholders—management, internal audit, and the independent auditor—in an unfiltered way. These periodic private sessions are required under NYSE corporate governance rules. Although the listing standards do not specify how often the committee should meet in executive sessions, committees should consider holding executive sessions on the agenda at each regularly scheduled meeting. To encourage full candor during executive sessions, minutes are typically not recorded.

Executive sessions are often held immediately after each meeting to discuss sensitive items not appropriate for the general meeting. Sessions are most commonly held individually with management (usually the CFO and chief audit executive), independent auditors, and other regular presenters, such as the chief information officer or the owner of cyber risk. Audit committees should use executive sessions to get real-time feedback and discuss topics related to the effectiveness of the meetings and future agenda items along with any other follow-up items. Executive sessions also give audit committees an opportunity to discuss results of the committee’s annual self-assessment as well as succession plans for the finance organization and internal audit.

Audit committees can hold brief (5-15 minutes), committee-only executive sessions before and after meetings. The committee-only pre-meeting can promote alignment on the agenda, confirm priorities, and identify concerns. The committee-only post-meeting can surface concerns without influence by management, identify topics for follow-up, and begin forming the agenda for the following quarter. It can also be used to do a real-time assessment of the meeting and identify changes for upcoming meetings.

Beyond meetings

Not all audit committee activities occur in the context of regularly scheduled meetings. Audit committee members can be engaged between meetings in several areas to fulfill their responsibilities.

Interact with finance

The audit committee both oversees and relies significantly on the finance function, which necessitates open and effective communication throughout the year. Audit committees should support the finance organization having adequate resources to promote the quality and reliability of financial accounting, reporting, and related controls.

The audit committee should understand the overall finance organization resource model, which would include composition, budget, and identification of its strengths and gaps, particularly at the CFO level and at least one level below. The committee should be informed of succession plans for leaders and finance professionals in roles of critical importance through regular discussions with the CEO, CFO, and other finance executives. Audit committees may also provide input on performance evaluations, compensation, and the goal-setting process of finance professionals.

Assess audit committee performance

Self-assessments of committee performance help committees evaluate their effectiveness and could provide information on areas where they can enhance their performance and processes. See [evaluation and self-assessment](#) for more information.

Coordinate with the board and other committees

Audit committees should report regularly to the board regarding the execution of the committees' duties and responsibilities, activities, any issues encountered, and related recommendations. This is a requirement under NYSE listing standards and a leading practice for all companies to consider. The audit committee should understand areas of risk and responsibilities overseen by the board and other committees. For areas where responsibilities overlap, the chair or another committee member should engage with the board or respective committee chair to provide proper oversight. In some cases, periodic combined committee meetings or chair meetings can be beneficial to engage on potential overlapping topics and confirm there are no gaps in coverage across board committees.

For example, while the compensation committee has primary responsibility for overseeing compensation plans, those plans can have a financial impact and are subject to disclosure requirements. The audit committee should understand potential implications of the incentive structure to its specific areas of oversight, including employee retention and potential fraud risks. Having one director serve on both the audit and compensation committees can facilitate the needed coordination.

Monitor succession planning for audit committee members, including the chair

The audit committee chair should regularly consider whether the skills and experiences of existing committee members meet the evolving needs of the committee. As needs change and transitions are anticipated, the chair should coordinate with the nominating and governance committee on succession planning. This should include a focus on members' independence and financial expertise as well as their industry, risk management, business, and leadership experience. The chair should communicate the skills and experiences needed to effectively carry out the audit committee's responsibilities to the nominating and governance committee chair.

Onboard new members

In collaboration with management, the audit committee should consider producing onboarding materials and conducting onboarding sessions for new committee members. A strong onboarding process can empower new members to contribute more insights to committee discussions earlier after their appointment. Sessions can be tailored to the new member's background and experience, but they can include:

- An overview of the company, including its history and operations
- Company policies and the code of ethics
- Major business and financial risks
- Corporate governance requirements and practices
- Audit committee responsibilities, including oversight of accounting policies and practices
- External and internal audit activities
- Industry trends

Onboarding sessions may include key members of management, other audit committee or board members, the CEO, the finance team, internal audit, counsel, and the independent auditor. While audit committees of public companies have certain core responsibilities, specific responsibilities in overseeing risk and other areas may vary among audit committees. The onboarding process should inform the new members as to the scope of the audit committee's role in overseeing risk and these other areas.

Provide education

NYSE listing standards require board education to be addressed in the company's corporate governance guidelines. There are no such explicit requirements by the SEC or Nasdaq, but audit committees should embrace a continuing education program to address emerging issues, knowledge gaps, and leading practices, using a needs-based approach to determine the appropriate content and frequency.

Educational topics can be included on the agenda during regularly scheduled audit committee meetings or in special sessions throughout the year. These sessions should encompass audit committee roles and responsibilities, including internal control over financial reporting and risk oversight; complex accounting issues and critical accounting policies; industry trends and developments; and regulatory updates. Topics should be tailored to the organization and the individual committee's needs but may include having a business unit leader discuss their respective area and related risks, a refresher on a significant accounting estimate or policy, or a deep dive on an emerging and evolving risk.

Resources available to create and deliver the program can feature a mix of individuals, some within the organization and others who can provide external perspectives. Independent auditors or outside consultants can also assist in identifying appropriate specialists.

Participating in external programs focused on board or audit-committee-related topics is another effective way for committee members to remain informed. These programs are offered by many professional services firms, universities, and not-for-profit organizations. Such forums offer an opportunity to meet with peers and share experiences, and they can be valuable for gaining knowledge from specialists on trends in corporate governance. Boards should be careful not to rely completely on public programs designed for a broad audience because they may not address the dynamics of a specific company and its industry.

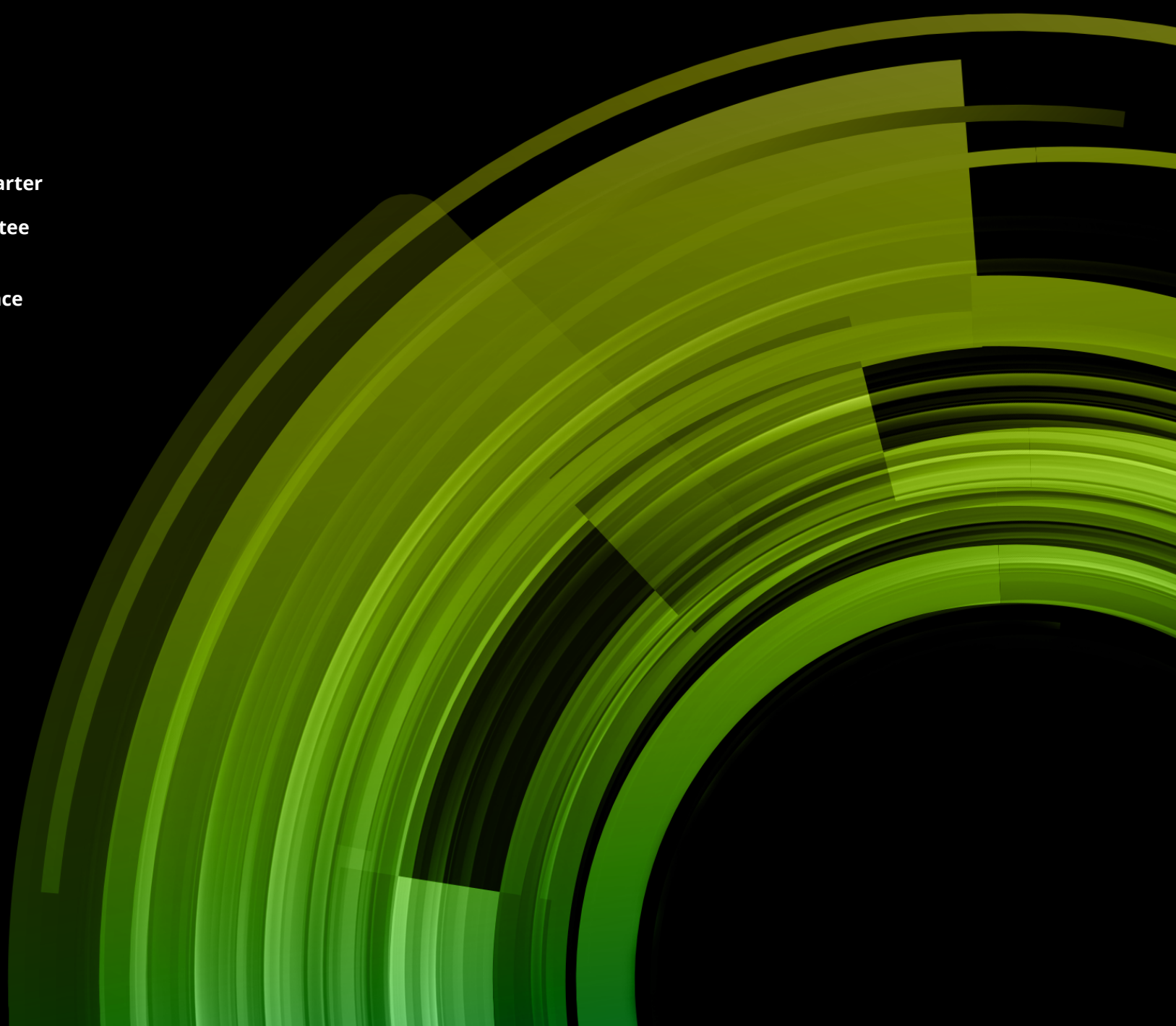


Appendices

Sample audit committee charter

**Planning tool: Audit committee
calendar of activities**

**Audit committee performance
evaluation**





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)].

LEGEND: ■ NYSE ■ Nasdaq ■ SEC

1. The information presented can and will change; we are under no obligation to update such information. Deloitte LLP makes no representations as to the sufficiency of these tools for your purposes and, by providing them, we are not rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This tool should not be viewed as a substitute for such professional advice or services, nor should it be used as a basis for any decision that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser. Deloitte LLP does not assume any obligations as a result of your access to or use of this tool.
2. Deloitte LLP does not accept any responsibility for any errors in this publication may contain, whether caused by negligence or otherwise, or for any losses, however caused, sustained by any person who relies on it. This charter template is designed for US 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 activities identified.
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.

LEGEND: ■ NYSE ■ Nasdaq ■ SEC

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)].

LEGEND: ■ NYSE ■ Nasdaq ■ SEC

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)]**.
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
 - Meeting separately with internal audit to discuss issues and concerns warranting the attention of the committee
 - Reviewing significant reports to management prepared by internal audit and management's responses to such reports
 - Reviewing and advising on the selection and removal of the internal audit director
 - Reviewing the activities and organizational structure of the internal audit function, as well as the qualifications of its personnel
 - Annually reviewing and recommending changes (if any) to the internal audit charter

LEGEND: ■ NYSE ■ Nasdaq ■ SEC

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.



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 recommend 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.

LEGEND: ■ NYSE ■ Nasdaq ■ SEC

- 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.

Planning tool: Audit committee calendar of activities

Following is a sample tool that audit committees can use to help plan their annual activities and meeting agendas. It considers the requirements for the audit committees of US public companies, including NYSE- and Nasdaq-listed companies, as well as common practices in the marketplace, and it is subject to change.¹

The following headings are included in the tool to guide audit committees in their planning:

- **Action or responsibility:** This may not be an explicit legislative or regulatory requirement or proposal, but may be an action that logically results from other legislative or regulatory requirements or proposals.
- **Source:** This indicates if the action or responsibility results from a requirement of SEC rulemaking, the NYSE, Nasdaq, or a common or emerging practice.
- **Suggested frequency:** This offers a benchmark for how often the activity could be performed.
- **Meeting month:** This outlines the months in which an activity could be performed.

The audit committee can use this tool in conjunction with the [sample audit committee charter](#) and tailor it to reflect the responsibilities in the company's audit committee charter.

This document is not an all-inclusive list of activities that an audit committee should or must execute. It may also list activities that are not relevant to all companies; consequently, each company and audit committee should consider which activities should be listed based upon the circumstances in question. The planning tool contains general information only and does not constitute, and should not be regarded as, legal or similar professional advice or service.²

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2. Deloitte LLP does not accept any responsibility for any errors this publication may contain, whether caused by negligence or otherwise, or for any losses, however caused, sustained by any person who relies on it. This planning tool is designed for US 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 activities identified.



Planning tool: Audit committee calendar of activities

Action or responsibility		Source				Suggested frequency	Meeting month												
		SEC requirements	NYSE listing standards	Nasdaq listing standards	Common practices		January	February	March	April	May	June	July	August	September	October	November	December	
General responsibilities	Monitor audit committee members' compliance with applicable independence rules and regulations.	●	●	●		Ongoing													
	As necessary, engage outside legal, accounting, or other advisers, and provide funding to compensate those advisers.	●	●	●		As needed													
	Report regularly to the board of directors regarding the execution of duties and responsibilities.		●			Each board meeting													
	Review the financial literacy and expertise of all audit committee members. Determine audit committee financial expert status and determine that members are in compliance with applicable rules and regulations.	●	●	●		Annually													
	Disclose in the Form 10-K (or equivalent annual filing) whether at least one member of the audit committee has been determined to be an "audit committee financial expert," as defined by the SEC. If the board determines that someone on the audit committee meets the definition, disclose the person's name and whether the person is independent. If more than one audit committee member is determined to fulfill the definition, determine if the names and independence of those individuals will be disclosed. If there is not an audit committee financial expert, disclose why not.	●				Annually													
	The audit committee should participate in an executive session, without members of management, at each regularly scheduled meeting or as otherwise determined by the committee.				●	Each audit committee meeting or as otherwise determined													
	Periodically, meet with management, the internal auditor, and the independent auditor privately to discuss any necessary matters.		●			Periodically													
	Consider and plan for succession of audit committee members.				●	Annually													



Planning tool: Audit committee calendar of activities

Action or responsibility		Source				Suggested frequency	Meeting month													
		SEC requirements	NYSE listing standards	Nasdaq listing standards	Common practices		January	February	March	April	May	June	July	August	September	October	November	December		
Review of financial/controls information	Review and discuss with management and the independent auditor 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 and company-specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations." Ensure management certifications are included in relevant filings as required by the SEC.	●	●			Quarterly														
	Recommend to the board of directors whether the financial statements should be included in the annual report on Form 10-K.	●				Annually														
	Discuss earnings press releases, including the type and presentation of information, paying particular attention to any pro forma or adjusted non-GAAP information. This discussion may be in general terms.		●			Quarterly														
	Discuss the financial information and earnings guidance provided to analysts and ratings agencies. This discussion may be in general terms.		●			Annually														
	Review the regular internal reports to management prepared by the internal audit function and management's response.				●	Each audit committee meeting or as otherwise determined														
Independent auditor relationship	Appoint the independent auditor.	●	●	●		Annually														
	Compensate, retain, and oversee the work of 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.	●	●	●		Ongoing														
	Review the qualifications and performance of the independent auditor, including the lead audit partner. Ensure that partners are rotated in accordance with applicable requirements. The audit committee should present the conclusions to the full board.		●			Annually														



Action or responsibility		Source				Suggested frequency	Meeting month													
		SEC requirements	NYSE listing standards	Nasdaq listing standards	Common practices		January	February	March	April	May	June	July	August	September	October	November	December		
Independent auditor relationship	Preapprove audit and non-audit services provided by the independent auditor. Consider whether the auditor's provision of permissible non-audit services is compatible with the auditor's independence.	●				Ongoing														
	Consider the independence of the auditor, including obtaining a formal statement delineating all relationships between the independent auditor and the company. Discuss with the independent auditor any disclosed relationships or services that may affect the independence, objectivity, and professional skepticism of the auditor, and take appropriate actions to oversee independence.			●		Annually and as needed														
	Oversee the resolution of disagreements between management and the independent auditor if they arise. Remove the independent auditor if circumstances warrant.	●				As needed														
	Review with the independent auditor any problems or difficulties encountered in the course of the audit and management's response.		●			Annually														
	Prior to filing periodic financial statements, receive the report from the independent auditor required by Rule 2-07(a)(3) of Regulation S-X. This report includes: <ul style="list-style-type: none"> – Critical accounting policies and practices – Alternative treatments of financial information within GAAP related to material items that have been discussed with management, the ramifications of using these 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 	●				As reported by the independent auditor														
	Discuss with the independent auditor the matters required to be discussed under the standards of the PCAOB, including: <ul style="list-style-type: none"> – 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 	●				As reported by the independent auditor														



Planning tool: Audit committee calendar of activities

Action or responsibility		Source				Suggested frequency	Meeting month														
		SEC requirements	NYSE listing standards	Nasdaq listing standards	Common practices		January	February	March	April	May	June	July	August	September	October	November	December			
Independent auditor relationship	Review hiring policies for personnel of the independent auditor.		●		●	As needed															
	Obtain and review a report by the independent auditor describing: <ul style="list-style-type: none"> - The independent auditor's internal quality-control procedures - Any material issues raised by the most recent internal quality-control review, peer review, or 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 - All relationships between the independent auditor and the company 		●			Annually															
Financial reporting processes, accounting policies, and internal control	In consultation with the independent auditor and the internal audit function, review the integrity of the company's internal and external financial reporting processes, including disclosure controls and procedures.				●	Quarterly															
	Review with management material issues regarding accounting principles and presentation of the financial statements, including any significant changes in the company's selection or application of accounting principles, significant issues as to the adequacy of the company's internal controls, and any special audit steps adopted in response to significant or material internal control deficiencies.		●			Quarterly															
	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.		●				Quarterly														



Planning tool: Audit committee calendar of activities

Action or responsibility		Source				Suggested frequency	Meeting month												
		SEC requirements	NYSE listing standards	Nasdaq listing standards	Common practices		January	February	March	April	May	June	July	August	September	October	November	December	
Financial reporting processes, accounting policies, and internal control	Review the effect of regulatory and accounting initiatives as well as off-balance-sheet structures on the financial statements of the company.		●			As needed													
	Conduct a reasonable prior review and oversight of all related-party transactions for potential conflicts of interest, and prohibit such a transaction if the committee determines the transaction to be inconsistent with the interests of the company and its shareholders.	●	●	●		Quarterly													
	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.				●	Quarterly													
	Review the adequacy of procedures for the receipt, retention, and treatment of complaints regarding accounting, internal controls, or auditing matters, including procedures for confidential, anonymous submissions by company employees.	●	●	●		Annually													
	Receive and review reports or complaints of questionable accounting, auditing, or internal control matters.				●	Ongoing													
Internal audit activities	Review and advise on the selection or removal of the internal audit director.				●	As needed													
	Understand the scope of work planned for the internal audit function and recommend any changes as necessary.				●	Annually													
	Review internal audit findings and remediation of matters identified.				●	As needed													
	Meet with the director of the internal audit function privately to discuss any necessary matters.				●	Quarterly													
	Review with the chief audit executive any significant difficulties, disagreements with management, or scope restrictions encountered in the course of the function's work.				●	Annually													
	Review the activities and organizational structure of the internal audit function, as well as the qualifications of its personnel.				●	Annually													
	Review the internal audit charter and recommend any necessary changes.				●	Annually													
Discuss with the independent auditor and management the internal audit function's responsibilities, budget, and staffing.		●			Annually														



Planning tool: Audit committee calendar of activities

Action or responsibility		Source				Suggested frequency	Meeting month												
		SEC requirements	NYSE listing standards	Nasdaq listing standards	Common practices		January	February	March	April	May	June	July	August	September	October	November	December	
Ethical and legal compliance	Review the company's code of ethical conduct and the company's systems to monitor compliance and enforce this code. Determine whether the code is in compliance with applicable rules and regulations.				●	Annually													
	Review reports of code violations and their treatment.				●	As needed													
	In consultation with the company's legal counsel, review legal compliance and legal and regulatory matters that could have a significant impact on the organization's financial statements.		●				Semiannually or more often as needed												
Risk management	Discuss policies with respect to risk assessment and risk management. 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 taken to monitor and control such exposures.		●			Annually													
	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.				●	Annually													
	Consider the risk of management's ability to override the company's internal controls.				●	Annually													
Other responsibilities	Review the audit committee charter; recommend to the board of directors any necessary amendments, as conditions dictate.			●		Annually													
	Provide a report of the audit committee, which contains certain required disclosures, in the company's annual proxy.	●				Annually													
	Participate in appropriate continuing education.				●	As needed													
	Assess performance relative to the audit committee's purpose, duties, and responsibilities.		●			Annually													
	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.				●	As needed													



Audit committee performance evaluation

The following questionnaire is based on leading practices to assist an audit committee in performing a self-assessment of its performance. This sample tool may not contain all of the criteria applicable to each committee, nor does it suggest all of the criteria should apply to each committee.¹ Each company should consider the items that are most relevant to it and/or its audit committee.²

For each of the following statements, select a number between 1 and 5, with 1 indicating that you strongly disagree and 5 indicating that you strongly agree. Leave blank if the statement is not applicable or you do not have enough information to rank the audit committee on that particular item.

Composition and quality	Strongly disagree	←————→			Strongly agree
1. Qualified audit committee members are identified by sources independent of management (e.g., independent board members assisted by an outside search firm).	1	2	3	4	5
2. Audit committee members have the appropriate qualifications to meet the objectives of the audit committee charter, including appropriate financial literacy.	1	2	3	4	5
3. The audit committee demonstrates integrity, credibility, trustworthiness, active participation, an ability to handle conflict constructively, strong interpersonal skills, and the willingness to address issues proactively.	1	2	3	4	5
4. The audit committee demonstrates appropriate industry knowledge and includes a diversity of experiences and backgrounds.	1	2	3	4	5
5. Members of the audit committee meet all applicable independence requirements.	1	2	3	4	5
6. The audit committee participates in a continuing education program to enhance its members' understanding of relevant accounting, reporting, regulatory, auditing, and industry issues.	1	2	3	4	5
7. The audit committee monitors compliance with corporate governance regulations and guidelines.	1	2	3	4	5
8. The audit committee reviews its charter annually to determine whether its responsibilities are described adequately and recommends changes to the board for approval.	1	2	3	4	5
9. New audit committee members participate in an orientation program to educate them on the company, their responsibilities, and the company's financial reporting and accounting practices.	1	2	3	4	5

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Composition and quality

Strongly disagree ← → Strongly agree

10. The audit committee chair is an effective leader (e.g., runs committee meetings efficiently and effectively, stays coordinated with the board and other committees, keeps open lines of communication with management, internal audit, and independent auditor, etc.).	1	2	3	4	5
11. The audit committee, in conjunction with the nominating committee (or its equivalent), creates a succession and rotation plan for audit committee members, including the audit committee chair.	1	2	3	4	5

Average

Understanding the business, including risks

Strongly disagree ← → Strongly agree

12. The audit committee considers significant risks that may directly or indirectly affect financial reporting, even in instances where such risks are overseen by the full board or other committees. Examples include: <ul style="list-style-type: none"> - Regulatory and legal requirements - Concentrations (e.g., suppliers and customers) - Market and competitive trends - Financing and liquidity needs - Financial exposures - Business continuity - Cybersecurity - Company reputation - Financial strategy execution - Financial management's capabilities - Management override - Fraud control - Company pressures, including "tone at the top" 	1	2	3	4	5
13. The audit committee considers, understands, and approves the process implemented by management to effectively identify, assess, and respond to the organization's risks.	1	2	3	4	5
14. The audit committee understands and approves management's fraud risk assessment and has an understanding of identified fraud risks.	1	2	3	4	5
15. The audit committee considers the company's performance versus that of its peers in a manner that enhances comprehensive risk oversight by using reports provided directly by management to the audit committee or at the full board meeting. These may include benchmarking information comparing the company's financial performance and ratios with industry competitors and peers, industry trends, analyst estimates, and budget analysis with explanations for areas where significant differences are apparent.	1	2	3	4	5

Average

Additional Notes:



Process and procedures

	Strongly disagree ← → Strongly agree				
	1	2	3	4	5
16. The audit committee reports its proceedings and recommendations to the board after each committee meeting.	1	2	3	4	5
17. The audit committee develops a calendar that dedicates the appropriate time and resources needed to execute its responsibilities.	1	2	3	4	5
18. Audit committee meetings are conducted effectively, with sufficient time spent on significant or emerging issues.	1	2	3	4	5
19. The level of communication between the audit committee and relevant parties is appropriate; the audit committee chair encourages input on meeting agendas from committee and board members, management, the internal auditors, and the independent auditor.	1	2	3	4	5
20. The audit committee sets clear expectations and provides feedback to the full board concerning the competency of the organization's CFO and senior financial management.	1	2	3	4	5
21. The audit committee has input into the succession planning process for the CFO.	1	2	3	4	5
22. The agenda and related information (e.g., prior meeting minutes, press releases, financial statements) are circulated in advance of meetings to allow audit committee members sufficient time to study and understand the information.	1	2	3	4	5
23. Written materials provided to audit committee members are relevant and concise.	1	2	3	4	5
24. Meetings are held with enough frequency to fulfill the audit committee's duties and at least quarterly, which should include periodic visits to company locations with members of management.	1	2	3	4	5
25. Regularly, audit committee meetings include separate private sessions with management and the internal and independent auditors.	1	2	3	4	5
26. The audit committee maintains adequate minutes of each meeting.	1	2	3	4	5
27. The audit committee and the compensation committee regularly review management incentive plans to consider whether the incentive process is appropriate.	1	2	3	4	5
28. The audit committee meets periodically with the committee responsible for reviewing the company's disclosure procedures.	1	2	3	4	5
29. The audit committee respects the line between oversight and management of the financial reporting process.	1	2	3	4	5
30. Audit committee members come to meetings well prepared.	1	2	3	4	5
	Average				

Additional Notes:



Oversight of the financial reporting process, including internal controls

Strongly disagree ← → Strongly agree

31. The audit committee considers the quality and appropriateness of financial accounting and reporting, including the transparency of disclosures.	1	2	3	4	5
32. The audit committee reviews the company's significant accounting policies.	1	2	3	4	5
33. The audit committee understands and approves the process used by management to identify and disclose related-party transactions.	1	2	3	4	5
34. The audit committee has a process for reviewing quarterly and annual earnings releases, including pro forma or non-GAAP information and other significant financial information or earnings guidance, with management and the independent auditor.	1	2	3	4	5
35. The audit committee oversees the organization's external financial reporting and internal control over financial reporting. This oversight includes a process for reviewing Forms 10-Q and 10-K (including management's discussion and analysis), proxies, and other filings before they are issued and providing comments to management and the independent auditor when applicable.	1	2	3	4	5
36. The audit committee reviews the processes related to financial statement certifications made by the CEO and the CFO.	1	2	3	4	5
37. The audit committee receives sufficient information to assess and understand management's process for evaluating the organization's system of internal controls (e.g., financial reporting and disclosure controls, operation controls, compliance controls) and also believes that management's scope of internal control testing adequately supports its internal control assessment.	1	2	3	4	5
38. The audit committee understands and gives appropriate consideration to the internal control testing conducted by management, the internal auditors, and the independent auditor to assess the process for detecting internal control issues or fraud. Any significant deficiencies or material weaknesses that are identified are addressed, reviewed, and monitored by the audit committee.	1	2	3	4	5
39. The audit committee makes inquiries of the independent auditor, internal auditors, and management on the depth of experience and sufficiency of the company's accounting and finance staff.	1	2	3	4	5
40. The audit committee reviews the management recommendation letters written by the independent and internal auditors and monitors the process to determine that all significant matters are addressed.	1	2	3	4	5
41. The audit committee oversees that management takes action to achieve resolution when there are repeat comments from auditors, particularly those related to internal controls.	1	2	3	4	5
42. Adjustments to the financial statements that resulted from the audit are reviewed by the audit committee, regardless of whether they were recorded by management.	1	2	3	4	5
43. The audit committee is consulted when management is seeking a second opinion on an accounting or auditing matter.	1	2	3	4	5

Average

Additional Notes:



Oversight of audit functions

Strongly disagree ← → Strongly agree

44. The audit committee understands the coordination of work between the independent and internal auditors and clearly articulates its expectations of each.	1	2	3	4	5
45. The audit committee regularly reviews the adequacy of the internal audit function (e.g., the charter; audit plan; budget; compliance; and number, quality, and continuity of staff).	1	2	3	4	5
46. The audit committee oversees the role of the internal audit director from selection to termination (e.g., appointment, evaluation, compensation, and retention) and provides feedback at least annually.	1	2	3	4	5
47. The internal audit reporting lines established with the audit committee promote an atmosphere where significant issues that might involve management will be brought to the attention of the audit committee.	1	2	3	4	5
48. The audit committee appropriately considers internal audit reports, management's responses, and steps toward improvement.	1	2	3	4	5
49. The audit committee oversees the role of the independent auditor from selection to termination and has an effective process to evaluate the independent auditor's qualifications and performance.	1	2	3	4	5
50. The audit committee considers the independent audit plan and provides recommendations.	1	2	3	4	5
51. The audit committee reviews the audit fees paid to the independent auditors.	1	2	3	4	5
52. The audit committee comprehensively reviews management's representation letters to the independent auditor, including making inquiries about any difficulties in obtaining the representations.	1	2	3	4	5
53. The audit committee preapproves all audit and non-audit services provided by the independent auditor and considers the scope of the non-audit services provided.	1	2	3	4	5
54. The audit committee reviews other professional services that relate to financial reporting (e.g., consulting, legal, and tax strategy services) provided by outside consultants.	1	2	3	4	5
55. The audit committee monitors the process to determine that the independent auditor's partners are rotated in accordance with applicable rules.	1	2	3	4	5
56. The audit committee has private sessions with management and the internal and independent auditors that result in candid discussion of pertinent issues.	1	2	3	4	5

Average

Additional Notes:



Ethics and compliance

	Strongly disagree ← → Strongly agree				
57. Audit committee members oversee the process and are notified of communications received from governmental or regulatory agencies related to alleged violations or areas of noncompliance.	1	2	3	4	5
58. The audit committee oversees management's procedures for enforcing the company's code of conduct.	1	2	3	4	5
59. The audit committee determines that there is a senior-level person designated to understand relevant legal and regulatory requirements.	1	2	3	4	5
60. The audit committee oversees the organization's hotline or whistleblower process, reviews the log of incoming calls that relate to possible fraudulent activity, and understands the procedures to prohibit retaliation against whistleblowers.	1	2	3	4	5
	Average				

Monitoring activities

	Strongly disagree ← → Strongly agree				
61. An annual performance evaluation of the audit committee is conducted, and any matters that require follow-up are resolved and presented to the full board.	1	2	3	4	5
62. The company provides the audit committee with sufficient funding to fulfill its objectives and engage external parties for matters requiring external expertise.	1	2	3	4	5
	Average				
	Average of all sections				

Additional Notes:



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